12/21/87 A3840-6

ECONOMIC OUTLOOK

Chamber of Commerce of the United States

November/December 1987

MAY YOU LIVE IN INTERESTING TIMES...

Indeed, we do live in interesting times. The U.S. economy has now enjoyed 60 uninterrupted months of economic expansion–a peacetime record. Not only has the current expansion set a record for length, it has proved to be a remarkably robust period of growth. The labor force participation rate has reached a record of 65.7%. This expansion has resulted in a record percentage of the adult population at work.

What does this mean for American workers and consumers? How has this record period of economic growth affected the "bottom line" of American households? It has had two very positive effects: First, after ten years of stagnation and decline, median family income has turned around and posted solid increases since 1983. Secondly, the current expansion has been achieved with a considerably lower level of inflation than during the previous comparable period. While the 1975-79 expansion was achieved at the expense of a 51% increase in consumer prices, the consumer price index has only risen by 18% this time around.

Yet, in the midst of these economic successes, as we all know too well, the stock market collapsed last month and uncertainty about the future prevails. The crash on Wall Street became a global crash, as all the major stock markets–Tokyo, Hong Kong, Sydney, London–collapsed as well. In the face of such a debacle, everyone immediately set about to find something or someone to blame: the finger was quickly pointed at the "twin deficits." But, did the "twin deficits" really cause the stock market crash?

The first "twin" is the federal budget deficit. Almost at the same time that the stock market crashed, the Treasury announced that the federal budget deficit for FY 1987 was $148 billion–a $72 billion dollar reduction from FY 1986. As a result, the federal budget deficit burden has fallen from 6.3% of GNP in 1982, to 3.3% today. The worldwide concern with the size of America's budget deficit ignores the fact that state and local governments have been running partially offsetting surpluses. As a result, the total government sector deficit of the United States is only $88 billion, and amounts to 2.1% of GNP.

The other "twin" is, of course, the U.S. trade deficit. The concern with the intractability of the merchandise trade and current account deficits ignores the fact that there has been a significant turnaround in the rate of growth in exports and imports during the past two-and-a-half years. Real exports of goods and services have been rising steadily since the end of 1984. Also, import growth peaked in early 1986 and has been decelerating ever since. Importantly, during the last two quarters, exports grew significantly faster than imports.

Therefore, neither one of the "twin deficits" seems very guilty, since both the budget and trade deficits were improving when the stock market collapsed. Indeed, even if the "twins" were the cause of the crash on Wall Street, it is not clear why all the world's stock markets collapsed as well.

To find the real source of the stock market's collapse it is necessary to look at monetary policy. After growing ever faster during the past two years, money supply growth decelerated markedly in 1987. Just prior to the market's crash, the Fed made even clearer its intentions to pursue tight money by raising the discount rate by half a percentage point. Interest rates, which had already been climbing during the first nine months of the year, continued doing so. The reason for the Fed's tightening was the fear that the continued decline in the value of the dollar would reignite inflation in the United States. Yet, there is every indication that the fear of inflation is greatly exaggerated, both here and abroad.

Dr. Richard W. Rahn, Vice President and Chief Economist
Ms. Graciela Testa-Ortiz, Director, Forecast Section

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TABLE I
UNITED STATES ECONOMIC OUTLOOK 1987-1989
Prepared by the U.S. Chamber of Commerce
(Percent change from previous period at seasonally adjusted annual rates.)

	QUARTERS								YEARS			
	Actual			Forecast					Actual	Forecast		
	87:1	87:2	87:3	87:4	88:1	88:2	88:3	88:4	1986	1987	1988	1989
GROSS NATIONAL PRODUCT												
Real GNP	4.4	2.5	3.8	3.3	1.9	3.0	3.6	4.1	2.9	2.7	3.0	3.2
Consumption	-0.7	1.9	4.8	-2.4	-0.1	1.0	2.0	2.3	4.2	1.8	0.8	2.3
Residential Investment	-7.7	-2.8	-0.2	-2.5	2.4	14.9	10.8	5.3	12.5	0.2	4.3	3.3
Nonresidential Investment	-14.6	11.7	23.7	2.9	5.7	4.6	5.2	4.1	-2.3	0.9	7.2	3.1
Equipment	-15.3	16.5	26.6	3.4	6.6	5.1	5.8	4.5	2.9	3.6	8.3	3.5
Structures	-12.8	0.0	15.8	2.0	3.4	3.3	3.4	3.0	-12.8	-5.7	4.3	1.9
Exports	10.2	17.9	16.5	15.6	18.0	17.8	13.0	13.5	3.3	11.9	16.4	10.1
Real Net Exports (82$B)	-135.2	-132.7	-137.9	-114.2	-93.7	-81.9	-71.7	-60.1	-145.8	-130.0	-76.9	-41.3
Imports	-5.2	11.1	16.5	-5.3	-1.2	5.6	3.5	3.2	10.5	5.6	2.9	2.5
Government Purchases	-18.6	6.6	7.0	8.8	-10.2	-5.3	1.9	7.7	2.5	1.0	-0.2	-0.5
Final Sales	3.0	7.5	8.6	4.3	5.1	6.7	7.6	8.1	5.5	5.3	6.3	7.4
Change in Business Inventories (82$B)	47.6	39.0	18.1	28.6	25.2	25.0	22.3	20.5	13.8	33.3	23.3	29.0
Industrial Production	3.1	4.3	8.7	4.3	3.5	4.5	5.4	6.1	0.5	3.6	4.9	4.0
New Car Sales (mill.)	9.5	10.0	11.6	9.0	9.9	9.9	10.2	10.6	11.4	10.1	10.2	10.5
Domestic Car Sales (mill.)	6.7	7.0	8.0	6.2	7.1	7.1	7.3	7.6	8.2	7.0	7.3	7.5
New Housing Starts (mill.)	1.79	1.61	1.62	1.59	1.69	1.73	1.75	1.81	1.82	1.65	1.75	1.76
EMPLOYMENT, WAGES AND PRICES												
Civilian Unemployment Rate (%)	6.7	6.2	6.0	6.0	6.0	6.0	5.9	5.7	7.0	6.2	5.7	5.5
Compensation	1.1	3.1	3.9	4.1	5.6	4.4	4.5	4.6	3.9	2.9	4.5	4.8
Productivity	0.4	1.1	1.9	0.9	0.3	1.3	1.7	1.8	1.7	0.5	1.1	1.2
Unit Labor Costs	0.5	2.2	1.6	3.4	5.3	3.1	2.7	2.8	2.1	2.4	3.4	3.5
Consumer Price Index	5.3	4.9	3.9	4.1	4.0	4.3	4.1	4.6	1.9	3.7	4.2	4.6
Implicit GNP Deflator	4.2	3.5	2.4	2.1	2.8	3.6	3.6	3.6	2.6	2.9	3.0	4.1
Prime Interest Rate (%)	7.5	8.0	8.4	8.6	8.4	8.1	7.5	7.1	8.3	8.1	7.8	6.7
3-mos. Treasury Bill Rate (%)	5.5	5.7	6.0	5.7	5.3	5.3	5.2	5.1	6.0	5.7	5.2	4.9
Corporate Bond Rate (%)	8.4	9.2	9.8	10.1	9.8	9.6	9.5	9.4	9.0	9.4	9.5	9.2
Real Personal Disposable Income	2.5	-4.1	4.7	3.5	0.9	0.6	3.2	1.4	4.1	1.1	1.8	1.9
Profits from Current Production ($B)[1]	165.9	162.5	166.0	175.3	164.9	166.1	168.8	171.6	179.4	167.5	167.8	169.8
GOVERNMENT FISCAL POLICY ($B)[2]												
Unified Receipts									769	854	900	965
Unified Outlays									990	1002	1050	1120
Unified Deficit									-221	-148	-150	-155

[1]After-tax corporate profits with inventory valuation and capital consumption adjustments.

[2]Unified budget figures on a fiscal year basis. FY86 and FY87 are actuals.

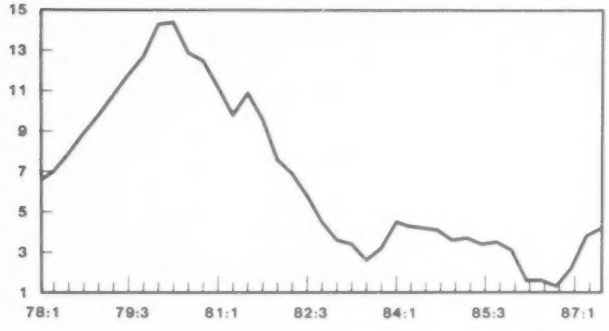
SOURCE: U.S. Chamber of Commerce, Forecasting Section, using the Washington University macro model of the U.S. economy.

FORECAST ASSUMPTIONS

This month's forecast contains preliminary estimates of the National Income and Product Accounts for the third quarter of 1987. The forecast incorporates provisions of the recently enacted tax reform plan. The nation's money supply M(1) is assumed to grow by 6.5 percent during 1987, 7.6 percent in 1988, and 8.0 percent in 1989. The trade weighted exchange value of the dollar falls by 10 percent in 1987, 6.7 percent in 1988, and 1.9 percent in 1989. The federal minimum wage is not assumed to increase.

Is a lower dollar translating into higher prices for imports? Indeed, prices of nonoil imported goods have increased, but in the wake of several years of declining prices, the increase is very small. Furthermore, the rate of increase in import prices remains well below the 1980's rate and has recently levelled off. Consumer prices have turned upward somewhat this year, yet the increase is miniscule when compared to the sharp declines in the CPI that we have been experiencing since 1980.

RATE OF GROWTH IN THE CPI
(%CH, YEAR AGO)



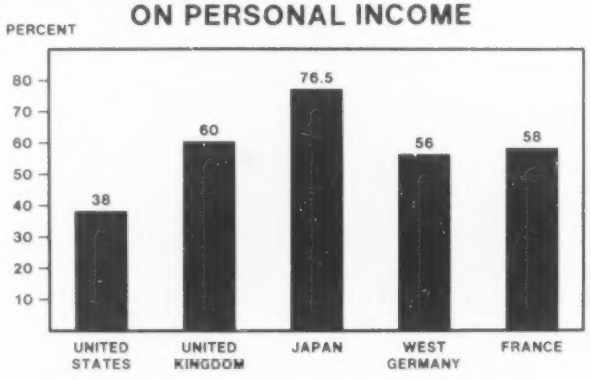
And what of the free-fall in the value of the dollar? The international outcry over the decline in the value of the dollar is understandable. It means that American goods are much more competitive than foreign products, both in the U.S. and abroad. To our trading partners it means that it has become increasingly difficult for them to stimulate their economies by selling in the American market.

Yet, their outcries beg the question of why they are not concentrating on the overvaluation of their own currencies which has resulted from their own extremely restrictive domestic policies. Indeed, the increase in the value of the German mark and the Japanese yen is the result of their own policies of high interest rates and their refusal to reduce tax burdens to spur domestic demand.

Both countries are extremely concerned about inflation. Yet, wholesale prices in both Germany and Japan have been declining for the past few years in these countries. As a result, real interest rates in West Germany remain higher than in the U.S. and have fallen only marginally since October 19th. Despite announced reductions in personal income taxes, both countries continue to tax their citizens heavily. The result of these policies has been considerably slower growth than the U.S. has experienced during the same time period.

This is not to suggest that we don't have any economic problems in this country. We need to address the issue of

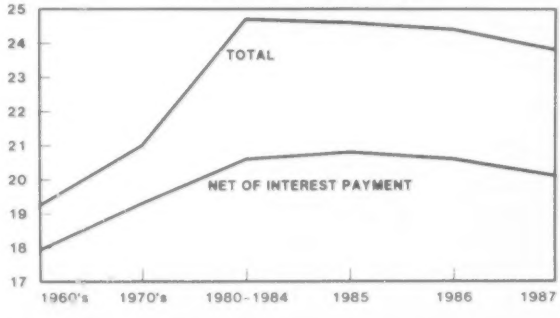
TOP MARGINAL TAX RATE
ON PERSONAL INCOME



the federal budget deficit. But in order to do so we must clearly understand the problem. Since 1980, the rate of growth in federal expenditures has exceeded growth in revenues, and has far outstripped increases in inflation. The budget deficit was not caused by the 1981 tax cuts. Personal income taxes as a percent of GNP reached 9% in 1987, a higher percentage than in the 60s and 70s.

The key to the deficit dilemma is in bringing federal spending under control. Federal spending as a percent of GNP has barely declined, from 24.7% in 1980-84 to 23.8% during the first three quarters of this year, and it remains substantially above the average for the 60s and 70s. Some believe that the rise in federal spending results from "uncontroliable" interest payments on the federal debt. But, the trend in federal spending net of interest payments is not different from that for total spending.

FEDERAL SPENDING AS A
PERCENT OF GNP



As usual, our forecast hinges on the exercise of economic common sense on the part of Congress, the Fed and the Administration. The economy was fundamentally sound before October 19th and remains so today. Yet the risks from bad policy choices have multiplied.

There are four policies we need to adopt in the days ahead: (1) provide adequate money growth, (2) reduce government spending rate, (3) avoid tax increases, and (4) refrain from enacting a protectionist trade bill.

TABLE II
TRENDS IN COMMERCE

	Current Period		Previous Period	Year Ago	Percent Change From Previous Period	Percent Change From Year Ago
Population (millions) [a]	Sep/87	244.3	244.1	241.6	[c]	1.1
Gross National Product ($B)	III/87	4,512.0	4,445.1	4,265.9	1.5	5.7
Gross National Product (82$B)	III/87	3,831.2	3,795.3	3,718.0	0.9	3.0
Money Supply (M1) ($B)	Oct/87	760.7	751.2	701.4	1.3	8.5
Money Supply (M2) ($B)	Oct/87	2,889.5	2,874.0	2,761.4	0.5	3.6
PEOPLE AND THEIR MONEY						
Personal Consumption Expenditures ($B)	Sep/87	3,010.2	3,026.3	2,872.4	−0.5	4.7
Personal Consumption Expenditures (82$B)	Aug/87	2,534.8	2,501.9	2,469.3	1.3	2.7
Disposable Personal Income ($B)	Sep/87	3,212.6	3,197.7	3,048.2	0.4	5.3
Disposable Personal Income (82$)	Aug/87	2,673.3	2,671.5	2,653.2	[c]	0.7
Personal Savings Rate (%)	Sep/87	3.3	2.2	2.8	1.1[b]	0.5[b]
Civilian Employment (millions)	Oct/87	113.2	112.8	110.8	0.3	2.1
Civilian Unemployment Rate (%)	Oct/87	6.0	5.9	6.9	0.1[b]	−0.9[b]
Average Hourly Earnings	Oct/87	$9.03	$9.05	$8.82	−0.2	2.3
Consumer Price Index (All Urban, 67 = 100) [a]	Oct/87	345.3	344.4	330.5	0.2	4.4
Prime Interest Rate (%) Nov. 18, 1987		8.75	8.75	7.50	0.0	1.25
Retail Sales ($B)	Oct/87	127.4	127.5	125.4	[c]	1.5
SERVICES SECTOR						
Employment in Services (millions)	Oct/87	77.9	77.4	75.5	0.6	3.1
Consumer Purchases of Service ($B)	Sep/87	1,589.3	1,587.0	1,476.2	0.1	7.6
Consumer Purchases of Service (82$B)	Aug/87	1,238.2	1,232.3	1,189.5	0.4	4.0
Domestic Revenue Passenger Mileage Flown						
Major Airlines (billions) [a]	Sep/87	23.5	30.6	22.4	−23.2	4.7
BUSINESS PROFITS AND OUTPUT						
Corporate Profits and Cash Flow ($B)						
Before Tax	II/87	267.1	257.0	224.4	3.9	19.0
Profits Tax Liability	II/87	132.7	128.0	102.1	3.6	30.0
Tax Liability as a Percent of Profits	II/87	49.7	49.8	45.5	−0.1[b]	4.2[b]
After Tax	II/87	134.4	129.0	122.3	4.7	9.9
Net Cash Flow	II/87	384.6	378.7	363.3	1.5	5.9
Industrial Production (77 = 100)	Oct/87	131.7	130.9	125.3	0.6	5.1
Capacity Utilization Rate (Mfg.) (%)	Oct/87	81.3	81.0	79.1	0.3[b]	2.2[b]
New Housing Starts (thou. units)	Oct/87	1,513.0	1,648.0	1,638.0	−8.1	1.8
BUSINESS COSTS						
Unit Labor Costs (nonfarm) (77 = 100)	III/87	173.1	172.5	169.8	0.3	1.9
Unit Nonlabor Costs (nonfarm) (77 = 100)	III/87	170.6	169.2	167.0	0.8	2.2
Producer Price Indices (67 = 100)						
Crude Materials	Oct/87	304.3	305.4	277.2	0.2	9.8
Intermediate Goods	Oct/87	320.0	318.9	304.8	0.5	5.0
Finished Goods	Oct/87	298.2	296.7	290.7	−0.2	2.6
FEDERAL SPENDING AND DEBT						
Federal Spending Index (67 = 100)	Sep/87	639.2	638.8	638.0	0.0	0.1
Fed. Gov't Gross Debt Outstanding ($B) [a]	Sep/87	2,350.3	2,329.2	2,130.0	0.9	1.7
INTERNATIONAL TRADE						
Exports of Goods & Services ($B)	III/87	433.4	416.5	396.6	4.1	15.1
Imports of Goods & Services ($B)	III/87	555.4	534.8	487.1	3.9	14.0
Balance on Goods & Services ($B)	III/87	121.6	118.5	110.5	2.6	10.0
WHAT'S AHEAD?						
Index of Leading Indicators (67 = 100) [a]	Sep/87	192.5	192.6	179.9	[c]	[c]

NOTE: All data seasonally adjusted unless otherwise noted

[a] Not seasonally adjusted
[b] Percentage point difference
[c] Less than 0.05 percent
[d] Index number not seasonally adjusted, percent change seasonally adjusted

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ECONOMIC OUTLOOK

Chamber of Commerce of the United States

January/February 1988

THE U.S. ECONOMY AT A CROSSROADS

In the aftermath of October's stock market crash, virtually all forecasters are predicting a significant decline in real economic growth for 1988. The "consensus" or average forecast of the 51 economists who comprise the *Blue Chip Economic Indicators* is that real GNP will grow at a 2.0% rate over the coming year. The Reagan Administration mid-session review also shows a downward revision of its earlier estimate of 3.5% real growth to 2.4% in 1988.

While still a minority, a growing number of analysts now fear that a recession this year has become a real possibility. This view is based upon a close reading of economic indicators (the leading economic indicators dropped a startling 1.7% in November, the biggest decline in more than six years), persistently high interest rates, which, though down from pre–stock market crash levels, remain high by postwar standards; and continued fibrillations in financial markets. More troubling yet, a majority of those economists who discount the possibility of recession this year do, nevertheless, foresee an economic downturn sometime in early to mid 1989.

Contrary to this view, a substantial number of informed observers believe that the economic indicators reveal an amazingly robust economy. These optimists argue that it is the pessimists' tea leaf reading itself, not the economic fundamentals, that poses the real danger to the economic expansion. The optimists contend that pessimism is unwarranted. This group fears that a contagion of psychological gloom could lead consumers to stop buying and businesses to stop expanding. At that point, the recession will have become a self-fulfilling prophecy.

As divergent as both of these views are, they have a frightening element in common: *many from both camps agree that if current monetary policy is not reversed, the chances of a recession next year increase dramatically.*

Throughout all of 1987, the Federal Reserve Board pursued a policy of extremely slow money growth. Beginning in the second week of January 1987, the Fed slammed on the monetary brakes, causing the narrowly defined money supply (M1) to plummet from a 13-week growth rate of 31.0% to –5.9% by mid July. The 52-week growth rate of M1 peaked early in January 1987 and by year's end stood at a meager 3.6%. With inflation running at about 4.5%, this represents a negative real rate of money growth, insufficient to accommodate the current pace of economic expansion (3.1% real growth in the fourth quarter of 1987).

The size of the monetary base, which consists of currency and bank reserves, tells a similar story and reveals that the Fed's tight money policy has not been accidental. Unlike most of the other monetary aggregates, the Fed has tight control over bank reserves. By the end of July last year, the Fed had brought the growth of bank reserves to a virtual halt before allowing them to resume a modest rate of growth prior to the October stock market crash. In response to the market sell-off, the Fed stepped in to pump up liquidity by purchasing government bonds. However, by mid December, the Fed had resumed its tight money policy by draining out over half of the new reserves it had pumped into the system after Black Monday.

Critics of the Federal Reserve Board have good reason to worry. Historically, a significant deceleration of money growth relative to its two-year trend line almost always has been followed in fairly short order by a cyclical downturn in the economy. In a seminal paper on the subject, William Poole, former member of the Council of Economic Advisers, contends that a significant deceleration results whenever money growth falls sufficiently to bring the level of the money stock to a point 3% below the highest two-year trend it had

Dr. Richard W. Rahn, Vice President and Chief Economist
Dr. Lawrence A. Hunter, Deputy Chief Economist
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GROSS NATIONAL PRODUCT														
Real GNP	4.4	2.5	4.1	3.1	2.1	1.4	3.0	3.0	3.7	3.1	2.9	2.8	2.6	3.2
Consumption	−0.7	1.9	4.9	−2.2	0.7	0.8	2.4	1.8	2.1	2.3	4.2	1.9	1.0	2.2
Residential Investment	−7.7	−2.8	−6.0	−5.7	0.2	0.8	−0.3	0.2	1.6	8.2	12.5	−0.8	−1.9	3.5
Nonresidential Investment	−14.6	11.7	26.3	6.8	6.6	4.0	3.5	4.5	5.1	4.5	−2.3	1.4	8.1	4.6
Equipment	−15.3	16.5	27.5	7.7	7.9	5.1	4.2	5.3	5.5	5.0	2.9	4.0	9.4	5.1
Structures	−12.8	0.0	23.0	4.3	3.2	0.9	1.7	2.2	3.9	3.0	−12.8	−4.9	4.8	3.0
Exports	10.2	17.9	19.4	19.0	18.1	12.0	7.9	10.5	10.0	9.1	3.3	12.5	15.4	9.5
Real Net Exports (82$B)	−135.2	−132.7	−134.9	−127.4	−108.2	−98.7	−91.1	−80.8	−71.9	−62.6	−145.8	−132.5	−94.7	−59.9
Imports	−5.2	11.1	16.3	8.5	0.1	2.9	1.2	1.5	2.3	1.5	10.5	6.5	4.9	2.0
Government Purchases	−18.6	6.6	0.8	16.5	−10.0	−5.2	2.2	7.3	−10.8	0.3	2.5	0.7	0.4	−0.5
Final Sales	3.0	7.5	8.7	5.2	5.6	5.3	6.6	7.3	6.8	8.0	5.5	5.4	6.2	7.4
Change in Business Inventories (82$B)	47.6	39.0	24.1	35.8	30.9	26.5	23.7	18.2	32.9	28.5	13.8	36.6	24.8	27.1
Industrial Production	3.1	4.3	8.4	5.7	3.4	0.9	3.8	4.1	5.2	3.8	0.5	3.7	4.1	4.3
New Car Sales (mill.)	9.5	10.0	11.6	9.8	9.5	9.5	9.8	9.9	10.1	10.2	11.4	10.3	9.7	10.2
Domestic Car Sales (mill.)	6.7	7.0	8.0	6.6	6.5	6.5	6.8	6.9	7.1	7.2	8.2	7.1	6.7	7.2
New Housing Starts (mill.)	1.79	1.61	1.61	1.59	1.60	1.55	1.60	1.59	1.63	1.69	1.82	1.65	1.59	1.69
EMPLOYMENT, WAGES AND PRICES														
Civilian Unemployment Rate (%)	6.7	6.2	6.0	5.9	5.9	6.1	6.0	6.0	5.9	5.8	7.0	6.2	6.0	5.7
Compensation	1.1	3.1	3.9	4.6	6.1	4.9	4.9	5.0	5.6	5.2	3.9	2.9	4.9	5.2
Productivity	0.4	1.1	3.0	1.3	0.3	0.3	1.7	1.5	1.7	1.2	1.7	0.7	1.1	1.5
Unit Labor Costs	0.5	2.2	0.5	3.3	5.8	4.5	3.1	3.4	3.8	4.0	2.1	2.2	3.7	3.7
Consumer Price Index	5.3	4.9	3.9	3.9	4.4	4.6	4.3	4.7	5.0	5.0	1.9	3.7	4.3	4.8
Implicit GNP Deflator	4.2	3.5	2.8	3.5	3.0	3.4	3.2	3.6	4.4	4.4	2.6	3.0	3.2	4.0
Prime Interest Rate (%)	7.5	8.0	8.4	8.9	8.9	8.8	8.5	8.3	8.1	7.9	8.3	8.2	8.6	7.8
3-mos. Treasury Bill Rate (%)	5.5	5.7	6.0	6.0	5.9	5.6	5.4	5.3	5.4	5.2	6.0	5.8	5.6	5.2
Corporate Bond Rate (%)	8.4	9.2	9.8	10.2	9.8	9.7	9.8	9.7	9.6	9.6	9.0	9.4	9.8	9.5
Real Personal Disposable Income	2.5	−4.1	4.0	3.8	3.1	0.3	1.8	0.8	1.7	1.6	4.1	1.0	2.1	1.5
Profits from Current Production ($B)[1]	165.9	162.5	173.1	176.4	162.3	155.3	154.5	154.1	150.1	154.1	179.4	169.6	156.5	156.8
GOVERNMENT FISCAL POLICY ($B)[2]														
Unified Receipts											769	854	900	970
Unified Outlays											990	1002	1050	1115
Unified Deficit											−221	−148	−150	−145

[1]After-tax corporate profits with inventory valuation and capital consumption allowances.

[2]Unified budget figures on a fiscal year basis. FY1987 data is actual.

SOURCE: U.S. Chamber of Commerce, Forecasting Section, using the Washington University macro model of the U.S. economy.

FORECAST ASSUMPTIONS

This month's forecast contains second revision estimates of the National Income and Product Accounts for the third quarter of 1987. The forecast incorporates provisions of the recently enacted tax reform plan. The nation's money supply M(1) is assumed to grow by 6.2 percent during 1987, 6.7 percent in 1988, and 8.0 percent in 1989. The trade weighted exchange value of the dollar falls by 13.5 percent in 1987, 9.8 percent in 1988, and 2.7 percent in 1989. The federal minimum wage is not assumed to increase.

achieved since the previous business cycle trough. After stepping hard on the monetary brakes for three-quarters of a year, the Fed finally achieved this dubious accomplishment in August of 1987. By November, the Fed had depressed M1 growth to a level almost 4.5% below its maximum two-year trend line, an ominous sign.

Why is the Fed engaged in this risky game? One can only speculate on the Board's motives given the shroud of secrecy behind which it operates. Close analysis of the data and an examination of public pronouncements by various Fed governors and bank presidents, however, permits one to draw some reasonable conclusions about the Federal Open Market Committee's motivation.

Between 1985 and the end of 1986, the Fed engineered extremely rapid money growth, while presenting the public with rhetorical statements in favor of monetary restraint. For instance, between the fall of 1985 and the spring of 1987, M1's 52-week growth rate remained consistently above 10%. Under prevailing economic conditions at the time, the only policy objective consistent with this behavior by the Fed is that of influencing the foreign exchange value of the dollar. By 1985, the dollar had hit an all-time high and many believed that a weakened dollar was the only solution to the nation's exploding trade deficit. It appears the Fed agreed.

It is no coincidence that the dollar began retreating from its historically strong position against the yen and the mark at about the same time the Fed stepped on the monetary accelerator. Between January 1986 and January 1987, the dollar depreciated almost 25% against the mark. During the same period, the two-year average growth rate of M1 almost doubled.

As an increased supply of dollars began to flood the world's currency markets, the dollar's value on foreign exchange markets declined against all major currencies. Unfortunately, the Fed seems to have overshot its mark, and by the end of 1986, began to fear the dollar was falling too far, too fast.

While the value of the dollar was falling, prices of imports were on the rise. This adjustment in relative prices between imports and exports coincided with other inflationary signs beginning to show up in the economy after almost two years of intoxicating monetary growth. It was also becoming apparent that money growth could not remain at such an extraordinary level for much longer without risking a resurgence of inflation. The Fed then appears to have slammed on the monetary brakes in an attempt to avert both a free-fall of the dollar and reignition of inflation. The Federal Reserve Board had become hoist on its own petard.

Inflationary fears and fear of a free-fall in the dollar mutually reinforced the Fed's tight money policy and provided the lenses through which the Board viewed and interpreted economic events of the past year. Between February and September of 1987, yields on long-term government bonds increased a phenomenal 300 basis points. Rather than recognizing this as a direct result of its tight monetary policy, the Fed attributed the run up in rates to inflationary expectations, which of course only served to strengthen the Board's resolve to stay the course of tight money. The Fed's refusal to rescind its pre-stock market crash hike in the discount rate, even after the market's collapse, reflects the strength of its resolve. Further evidence came just two weeks ago when the Fed, apparently in coordination with the Treasury Department and other G-7 Finance Ministries, conspicuously and massively intervened in currency markets to support the dollar.

The economy now stands at a crossroads, and the Federal Reserve Board is to choose. If the Fed persists with its current tight money policy, it will push the economy into a recession by year's end. Because the economy is so fundamentally strong, it likely will resist declining as quickly as the historical record predicts after a significant deceleration in money growth–about six months. But even this expansion, strong as it is, cannot continue for long if the Fed insists on strangling it.

We remain optimistic that the current economic expansion can continue indefinitely if policymakers do not abort it prematurely. If the Fed loosens monetary policy to accommodate the current level of economic growth, we are looking for continued economic growth in the 3% range in the second half of this year, following a decline to 1.4% in the second quarter. For the year, real growth should continue at a 2.6% rate. It must be emphasized that this forecast assumes the Fed will loosen monetary policy. If the Fed continues to keep money as tight as it has recently, it will push the economy into recession by the end of the year. History tells us the Fed has precious little time in which to decide this economic expansion's fate.

Growth in the Money Supply (52-Week Trend)

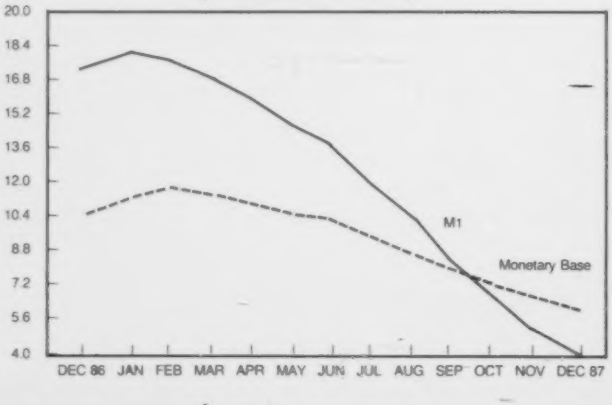

TABLE II
TRENDS IN COMMERCE

	Current Period		Previous Period	Year Ago	Percent Change From Previous Period	Percent Change From Year Ago
Population (millions) [a]	Oct/87	244.5	244.3	241.6	0.8	1.2
Gross National Product ($B)	III/87	4,524.0	4,445.1	4,265.9	1.7	6.0
Gross National Product (82$B)	III/87	3,835.9	3,795.3	3,713.3	1.0	3.3
Money Supply (M1) ($B)	Nov/87	756.6	760.7	712.4	-0.5	6.2
Money Supply (M2) ($B)	Nov/87	2,892.1	2,892.7	2,776.3	[c]	4.2
PEOPLE AND THEIR MONEY						
Personal Consumption Expenditures ($B)	Nov/87	3,031.9	3,015.5	2,841.3	0.5	6.7
Personal Consumption Expenditures (82$B)	Oct/87	2,498.6	2,516.2	2,467.0	-0.6	1.2
Disposable Personal Income ($B)	Oct/87	3,266.0	3,207.4	3,053.2	1.8	6.9
Disposable Personal Income (82$)	Sep/87	2,672.3	2,671.5	2,652.2	[c]	0.7
Personal Savings Rate (%)	Nov/87	3.8	5.0	3.9	-1.2[b]	-0.1[b]
Civilian Employment (millions)	Dec/87	113.7	113.5	110.6	0.2	2.8
Civilian Unemployment Rate (%)	Dec/87	5.8	5.9	6.7	-1.7[b]	-13.4[b]
Average Hourly Earnings	Dec/87	$9.11	$9.13	$8.84	-0.2	3.0
Consumer Price Index (All Urban, 67 = 100) [a]	Nov/87	345.8	345.3	330.8	0.4	4.3
Prime Interest Rate (%) Jan. 11, 1988	Jan/88	8.75	8.75	7.50	0.0	16.7
Retail Sales ($B)	Dec/87	126.7	125.7	127.4	0.7	-0.5
SERVICES SECTOR						
Employment in Services (millions)	Nov/87	78.3	78.0	75.9	0.4	3.2
Consumer Purchases of Service ($B)	Nov/87	1,624.6	1,618.0	1,493.4	0.4	8.7
Consumer Purchases of Service (82$B)	Oct/87	1,247.7	1,239.6	1,192.8	0.6	4.6
Domestic Revenue Passenger Mileage Flown						
Major Airlines (billions) [a]	Nov/87	23.6	25.1	22.5	-6.0	4.9
BUSINESS PROFITS AND OUTPUT						
Corporate Profits and Cash Flow ($B)						
Before Tax	III/87	284.9	257.0	224.4	10.8	26.9
Profits Tax Liability	III/87	143.0	134.2	106.1	6.6	34.8
Tax Liability as a Percent of Profits	III/87	50.2	49.9	44.9	0.3	11.8[b]
After Tax	III/87	141.9	134.5	130.2	5.5	9.0
Net Cash Flow	III/87	392.2	384.6	370.9	2.0	5.7
Industrial Production (77 = 100)	Nov/87	132.5	132.0	125.7	0.3	5.4
Capacity Utilization Rate (Mfg.) (%)	Nov/87	81.7	81.5	79.2	0.2	3.1
New Housing Starts (thou. units)	Nov/87	1,637.0	1,523.0	1,637.0	7.3	[c]
BUSINESS COSTS						
Unit Labor Costs (nonfarm) (77 = 100)	III/87	172.6	172.5	169.8	[c]	1.6
Unit Nonlabor Costs (nonfarm) (77 = 100)	III/87	172.2	169.2	167.0	1.8	3.1
Producer Price Indices (67 = 100)						
Crude Materials	Dec/87	301.3	302.2	277.0	-0.2	8.8
Intermediate Goods	Dec/87	322.0	321.3	305.0	0.3	5.6
Finished Goods	Dec/87	296.8	298.1	290.4	-0.4	2.2
FEDERAL SPENDING AND DEBT						
Federal Spending Index (67 = 100)	Nov/87	642.6	638.8	624.3	0.6	2.9
Fed. Gov't Gross Debt Outstanding ($B) [a]	Nov/87	2,413.5	2,388.7	2,184.1	1.0	10.5
INTERNATIONAL TRADE						
Exports of Goods & Services ($B)	III/87	439.2	416.5	376.6	5.4	16.6
Imports of Goods & Services ($B)	III/87	562.9	534.8	487.1	5.2	15.6
Balance on Goods & Services ($B)	III/87	123.7	118.3	110.5	4.6	11.9
WHAT'S AHEAD?						
Index of Leading Indicators (67 = 100) [a]	Nov/87	190.2	193.5	182.7	-1.7	4.1

NOTE: All data seasonally adjusted unless otherwise noted

[a] Not seasonally adjusted
[b] Percentage point difference
[c] Less than 0.05 percent
[d] Index number not seasonally adjusted, percent change seasonally adjusted

ECONOMIC OUTLOOK

Chamber of Commerce of the United States

March/April 1988

READING THE TEA LEAVES

Since the stock market crash of October 19, 1987, economic commentary has run the gamut from optimism to pessimism and back again. Some analysts claim the economy already is in a recession. Others predict that recession is just around the corner, while still others foresee more growth for 1988 without a recession. Many observers consider this lack of agreement among economists to be par for the course, confirming the old joke that "if you lay all the economists in the world end to end, you'll never reach a conclusion."

There are two reasons for the wide range of informed opinion about where the economy is now and where we are headed. First, there is serious concern about the quality of data gathered and reported by various government agencies. Some data is subject to frequent revisions, which often alter not only the magnitude but also the direction of the economic changes the data are intended to measure. Secondly, economic analysts look at reported data from different theoretical perspectives. Consequently, a given set of data is interpreted differently depending upon the analysts' theoretical predispositions.

Almost every day, one government agency or another releases data on economic activity. On February 2, 1988, the Department of Commerce reported that the index of leading indicators–an index designed to predict the direction of change in the overall economy–had declined by 0.2 percent for the month of December, 1987. This was reported as the third consecutive monthly decline in this index. One rule of thumb with regard to the index is that three consecutive declines signal a recession is in the works. One month later, on the basis of additional information, the Commerce Department revised the December data and informed the world that the leading indicators, in fact, had risen in December by 0.3 percent. "Please ignore previous message."

The furor over the original release of the index was intense, coming on the heels of a stock market collapse and other reports suggesting economic slowdown. Based upon the February data release, government policymakers, business and marketing researchers, financial managers along with entrepreneurs and consumers began to expect a recession. People started to adjust their behavior on the basis of these worrisome early warning signals. Instead of a recession, the economy continues to grow during the first part of 1988, albeit at a reduced pace.

The index of leading indicators has a good reputation for predicting recessions–perhaps too good. Although it seldom misses a recession, it has twelve times predicted recession when only eight actually occurred. Moreover, its forecasting prowess looks better in retrospect, in the light of revised data, than before the fact. In the last nine years, the index has fallen markedly only after the onset of a severe recession. In April of 1981, the leading indicators were signaling continuing economic expansion. In July, the economy plummeted into recession.

Because of these weaknesses, analysts have sought other forecasting tools. For example, in a recent analysis, Assistant Secretary of the Treasury Michael Darby found that changes in real levels of M1 and M2 money supply aggregates surpass the other leading indicators as predictors of recessions and slowdowns. This measure gave both earlier warnings of actual downturns and fewer false signals of recessions that never materialized.

Not only are we frequently unsure where the economy is heading, it may surprise many to learn that we often do not know where the economy has been until long after the fact. Commerce Department estimates for real GNP growth in the first quarter of 1985, for example, started at 2.1 percent. Over the next three months, revisions to that estimate put GNP growth at 1.3 percent, 0.7 percent and 0.3 percent, respectively. One year later, the

Dr. Richard W. Rahn, Vice President and Chief Economist
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TABLE I
UNITED STATES ECONOMIC OUTLOOK 1987-1989
Prepared by the U.S. Chamber of Commerce
(Percent change from previous period at seasonally adjusted annual rates.)

	QUARTERS											YEARS		
	Actual			Forecast								Actual	Forecast	
	87:2	87:3	87:4	88:1	88:2	88:3	88:4	89:1	89:2	89:3	89:4	1987	1988	1989
GROSS NATIONAL PRODUCT														
Real GNP	2.5	4.3	4.5	1.1	2.2	4.1	3.6	3.1	3.3	3.2	2.6	2.9	2.9	3.3
Consumption	1.9	5.4	-3.1	3.1	1.8	2.9	1.6	2.0	2.0	2.7	1.7	1.9	1.8	2.1
Residential Investment	-2.8	-6.5	8.1	-1.1	4.3	4.2	6.5	4.6	0.0	1.2	2.2	0.0	1.9	3.5
Nonresidential Investment	11.7	25.8	-0.5	4.8	5.7	5.9	5.9	5.1	5.2	4.0	4.2	0.9	6.9	5.2
Equipment	16.5	26.3	-2.6	5.5	7.0	6.6	7.2	6.0	5.9	4.1	5.2	3.2	7.4	6.0
Structures	0.0	24.6	5.5	2.6	2.3	4.2	2.3	2.8	3.3	3.6	1.7	-4.6	5.6	2.9
Exports	17.9	23.7	15.1	18.9	12.4	12.5	10.7	11.2	11.4	8.7	9.3	12.8	16.0	10.9
Real Net Exports (82$B)	-132.7	-138.4	-136.4	-110.9	-109.3	-104.0	-100.6	-91.4	-81.1	-74.3	-66.7	-135.7	-106.2	-78.4
Imports	11.1	22.4	9.7	-3.6	8.8	6.3	6.5	3.0	2.7	3.0	3.2	7.3	6.9	4.4
Government Purchases	6.6	4.5	24.4	-14.5	-4.7	2.6	7.7	-10.5	0.4	4.1	8.8	1.6	1.0	-0.2
Final Sales	7.5	9.0	3.3	6.9	5.5	6.8	6.6	6.6	7.4	7.8	7.7	5.3	6.2	6.9
Change in Business Inventories (82$B)	39.0	24.6	56.7	28.1	29.4	30.2	33.1	41.9	42.5	40.1	32.5	42.0	30.2	39.3
Industrial Production	4.3	8.7	6.6	1.0	1.1	5.7	5.3	4.0	4.3	3.9	2.8	3.8	4.0	4.2
New Car Sales (mill.)	10.0	11.6	10.0	10.8	10.2	10.8	10.3	11.0	11.0	11.1	10.9	10.3	10.5	11.0
Domestic Car Sales (mill.)	7.0	8.0	6.7	7.5	6.9	7.5	7.0	7.7	7.7	7.8	7.6	7.1	7.2	7.7
New Housing Starts (mill.)	1.61	1.62	1.53	1.57	1.59	1.65	1.70	1.68	1.65	1.68	1.66	1.63	1.63	1.67
EMPLOYMENT, WAGES AND PRICES														
Civilian Unemployment Rate (%)	6.2	6.0	5.9	5.8	5.9	5.9	5.7	5.5	5.4	5.2	5.1	6.2	5.8	5.3
Compensation	3.1	3.5	3.5	5.6	4.3	4.3	4.5	5.2	4.9	5.1	5.3	2.8	4.3	4.8
Productivity	1.5	4.1	-0.4	-1.2	0.8	2.2	1.3	0.9	1.2	1.3	0.9	0.8	0.7	1.2
Unit Labor Costs	1.6	-0.5	3.8	6.7	3.4	2.1	3.2	4.2	3.7	3.8	4.4	2.0	3.5	3.6
Consumer Price Index	4.9	3.9	3.6	3.6	3.6	4.3	4.4	4.4	4.3	4.1	4.0	3.7	3.8	4.3
Implicit GNP Deflator	3.5	2.8	2.7	3.1	3.3	2.7	3.2	4.2	4.0	4.2	4.3	3.0	3.0	3.7
Prime Interest Rate (%)	8.0	8.4	8.9	8.3	8.4	8.4	8.4	8.6	8.5	8.4	8.5	8.2	8.4	8.5
3-mos. Treasury Bill Rate (%)	5.7	6.0	5.9	5.4	5.4	5.4	5.6	5.7	5.8	6.0	6.0	5.8	5.4	5.9
Corporate Bond Rate (%)	9.2	9.8	10.2	9.5	9.3	9.5	9.5	9.7	9.8	9.8	9.9	9.4	9.4	9.8
Real Personal Disposable Income	-4.1	4.2	5.9	3.3	1.0	2.6	1.6	2.7	2.1	2.1	2.0	1.2	2.8	2.1
Profits from Current Production ($B)[1]	162.5	172.0	173.1	161.9	161.1	164.7	165.7	164.1	165.0	165.5	160.5	168.5	163.3	163.8
GOVERNMENT FISCAL POLICY ($B)[2]														
Unified Receipts												854	912	963
Unified Outlays												1005	1055	1112
Unified Deficit												-151	-143	-149

[1] After-tax corporate profits with inventory valuation and capital consumption allowances.

[2] Unified budget figures on a fiscal year basis. FY 1987 data is actual.

SOURCE: U.S. Chamber of Commerce, Forecasting Section, using the Washington University macro model of the U.S. economy.

FORECAST ASSUMPTIONS

This month's forecast contains first revision estimates of the National Income and Product Accounts for the fourth quarter of 1987. The forecast incorporates provisions of the tax reform plan. The nation's money supply M(1) is assumed to grow by 6.0 percent in 1988 and 1989. The trade weighted exchange value of the dollar falls by 8.9 percent in 1988, and 4.6 percent in 1989. The federal minimum wage is not assumed to increase.

revised growth for the first quarter of 1985 leaped upward to 3.1 percent. Finally, in July 1987, the number was revised again to 3.8 percent growth.

It should not be surprising that without a clear notion of where we have been and no clear indication of where we are headed, we frequently become confused about where we stand at any given moment. The current situation is a case in point. During this first quarter of 1988, we have seen several different series of numbers appearing to contradict one another. For example, housing starts and building permits have fallen below 1987 levels, suggesting slowdowns in housing and construction. Reports of slowed construction expenditures for commercial and industrial buildings appear to confirm this prediction. Yet, the Labor Department recently reported that 107,000 new construction workers were hired in February which is 128,000 more construction workers than were employed last year at this time when housing starts were considerably higher.

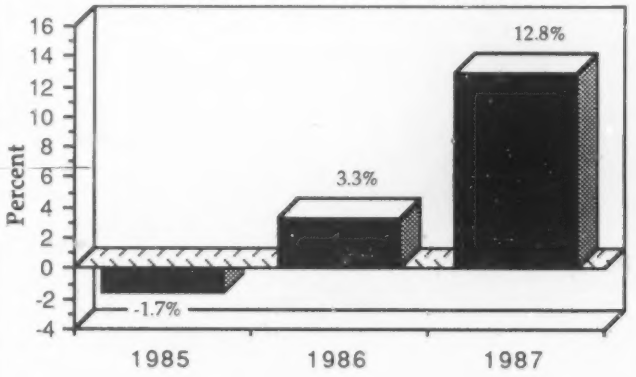
In retail trade, sales have been virtually stagnant since last summer, and inventories have been growing, especially in women's apparel. Yet, retail employment rose by 300,000 workers in the past three months and is now 600,000 higher than employment in retailing last year. Likewise, the Conference Board's index of consumer confidence has rebounded steadily back to strong levels since the stock market dive. Some retailers are showing greatly improved profits in the first part of 1988, while others show disappointing figures. Still, consumer credit purchases rose dramatically in January.

In the business sector, a similar arrangement of mixed signals strikes a discordant note. While production has continued at a relatively healthy pace, there has been a sharp drop in new orders. The most recent survey of the National Association of Purchasing Management, which provides information on actual deliveries and orders, showed a 2.5 percentage point decline in the purchasing managers index, pushing it to its lowest level in almost a year. Yet, the survey showed that overall orders grew in February indicating that the economy continues to grow, even if at a slower pace.

The signals are confusing. Yet the fact remains that American businesses went out and hired half a million workers in the month of February alone. Businesses are not likely to be hiring workers if they see a slowdown in their industry or region in the coming months. Employment growth never speeds up when a recession is about to begin. Moreover, the payroll employment data are not based on opinions, expectations or models, but rather on payroll records.

Two missing pieces of the puzzle are consistent with this growth in employment and tilt the scale in favor of continued economic strength. First are exports. As the chart below shows, real exports of goods and services surged in 1987. The improvement in exports is not only strong, it is broad based. Compared to their level at the end of 1986, real exports of goods and services had surged by 16.6 percent by the end of 1987. The increase in merchandise exports was impressive: 18.9 percent; while exports of services rose a respectable 11.9 percent. At the same time, import growth is progressing at a significantly slower pace than exports, contributing to a narrowing of the trade deficit. Imports of goods and services during the comparable period increased by only 9 percent. It is quite true that exports, no matter how robust, cannot support a declining economy. It is likely, however, that export strength of this magnitude is sufficient to see the economy through a period of sluggish growth.

REAL EXPORTS OF GOODS AND SERVICES



There is a second important factor that weighs the balance toward optimism. Since our last forecast, we have seen a major impediment to growth removed: The Federal Reserve Board now appears willing to ease monetary policy sufficiently to allow growth to proceed. The danger is that because the Fed remains so fixated on inflation expectations, growth itself may be interpreted as destabilizing, leading the Fed to tighten once again. A disturbing aspect of Chairman Greenspan's recent testimony before Congress was his prediction of a period of "subdued economic growth" and his approval of that likelihood. Most worrisome was his stated willingness to tighten down on monetary growth if the economy began to grow "too fast."

We continue to believe that the first half of this year will post weak but continued growth; barring major policy mistakes, we see no reason to fear a recession. However, we remain on the lookout for the drastic slowdown in money supply growth experienced last year to take its toll in reduced growth, perhaps lasting well into the second half of this year. We are not lowering our forecast of annual GNP growth downward in advance, but given continuing mixed signals, we, like the Commerce Department, reserve the right to revise our data.

TABLE II
TRENDS IN COMMERCE

	Current Period		Previous Period	Year Ago	Percent Change From Previous Period	Percent Change From Year Ago
Population (millions) [a]	Jan '88	245.0	244.9	243.8	[c]	0.5
Gross National Product ($B)	IV '87	4,604.0	4,524.0	4,288.1	1.8	7.4
Gross National Product (82$B)	IV '87	3,877.9	3,835.9	3,731.5	1.1	3.9
Money Supply (M1) ($B)	Jan '88	758.9	750.8	731.4	1.1	3.8
Money Supply (M2) ($B)	Jan '88	2,925.0	2,901.3	2,827.8	0.8	3.4
PEOPLE AND THEIR MONEY						
Personal Consumption Expenditures ($B)	Jan '88	3,048.6	3,038.6	2,849.5	0.3	7.0
Personal Consumption Expenditures (82$B)	Dec '87	2,514.7	2,497.0	2,508.4	0.7	0.3
Disposable Personal Income ($B)	Jan '88	3,302.0	3,281.7	3,093.5	0.6	6.7
Disposable Personal Income (82$B)	Dec '87	2,715.8	2,696.6	2,661.9	0.6	2.0
Personal Savings Rate (%)	Jan '88	4.7	4.4	4.9	0.3 [b]	-0.2 [b]
Civilian Employment (millions)	Feb '88	114.4	114.1	111.3	0.3	2.8
Civilian Unemployment Rate (%)	Feb '88	5.7	5.8	6.6	-0.1 [b]	-0.9 [b]
Average Hourly Earnings	Feb '88	$9.12	$9.14	$8.88	-0.2	2.7
Consumer Price Index (All Urban, 67=100) [a]	Jan '88	346.7	345.7	333.1	0.3	4.1
Prime Interest Rate (%) March 3, 1988	Mar '88	8.5	8.5	7.5	0.0	1.0
Retail Sales ($B)	Feb '88	128.0	127.2	124.1	0.6	3.1
SERVICES SECTOR						
Employment in Services (millions)	Feb '88	79.0	78.6	76.4	0.5	3.4
Consumer Purchases of Service ($B)	Jan '88	1,631.0	1,620.4	1,513.2	0.7	7.8
Consumer Purchases of Service (82$B)	Dec '87	1,246.0	1,244.2	1,208.9	0.1	3.1
Domestic Revenue Passenger Mileage Flown Major Airlines (billions) [a]	Jan '88	23.4	24.9	22.8	-6.0	2.6
BUSINESS PROFITS AND OUTPUT						
Corporate Profits and Cash Flow ($B)						
Before Tax	III '87	284.9	268.7	236.3	6.0	20.6
Profits Tax Liability	III '87	143.0	134.2	106.1	6.6	34.8
Tax Liability as a Percent of Profits	III '87	50.1	49.9	46.9	0.2	3.2
After Tax	III '87	141.9	134.5	130.2	5.5	9.0
Net Cash Flow	III '87	392.2	384.6	370.9	2.0	5.7
Industrial Production (77=100)	Jan '88	133.8	133.6	122.6	0.1	9.1
Capacity Utilization Rate (Mfg.) (%)	Jan '88	82.2	82.2	79.2	0.0	3.0
New Housing Starts (thou. units)	Jan '88	1,377.0	1,404.0	1,804.0	-1.9	-23.7
BUSINESS COSTS						
Unit Labor Costs (nonfarm) (77=100)	IV '87	173.5	172.2	171.5	0.8	1.2
Unit Nonlabor Costs (nonfarm) (77=100)	IV '87	172.9	173.0	163.9	-0.1	5.5
Producer Price Indices (82=100) [d]						
Crude Materials	Feb '88	94.6	93.4	89.9	1.3	5.2
Intermediate Goods	Feb '88	104.1	104.2	99.5	-0.1	4.6
Finished Goods	Feb '88	105.9	106.2	104.2	-0.3	1.6
FEDERAL SPENDING AND DEBT						
Federal Spending Index (67=100)	Jan '88	658.3	670.1	644.7	-1.8	2.1
Fed. Gov't Gross Debt Outstanding ($B) [a]	Jan '88	2,456.0	2,440.0	2,227.0	0.7	10.3
INTERNATIONAL TRADE						
Exports of Goods & Services ($B)	IV '87	456.8	439.2	383.3	4.0	19.2
Imports of Goods & Services ($B)	IV '87	583.7	562.9	500.2	3.7	16.7
Balance of Goods & Services ($B)	IV '87	126.9	123.7	116.9	2.6	8.6
WHAT'S AHEAD?						
Index of Leading Indicators (67=100) [a]	Jan '88	190.2	191.3	185.5	-0.6	2.5

NOTE. All data seasonally adjusted unless otherwise noted

[a] Not seasonally adjusted
[b] Percentage point difference
[c] Less than 0.05 percent
[d] Index number not seasonally adjusted, percent change seasonally adjusted

6/30/88 A3840-6

ECONOMIC OUTLOOK

Chamber of Commerce of the United States

May/June 1988

GOOD NEWS IS GOOD NEWS

As we reach the middle of the year, concerns about the economy have shifted from fears of recession (growing too slow) to fears of inflation (growing too fast). The headlines rumble: "Unemployment Falls to Fourteen-year Low, Inflation Fears Rise; Trade Deficit Drops, Inflation Fears Rise."

Since last month's release of those reassuring low unemployment numbers and the long-awaited numbers showing that the trade deficit is being worked down, there have been countless stories that inflation must rise as a consequence unless the Federal Reserve Board (Fed) slows economic growth by increasing interest rates.

The problem seems to be that the good news now appears to be too good. While the first quarter trade deficit declined 12.3%, the surge in exports and the continued rise in imports were interpreted to mean that U.S. growth was too strong. The decline in unemployment to 5.4% was accompanied by reported employment gains of 3.2 million over 1987, again a sign interpreted as risking too much growth—labor markets might become too tight.

The inflation fears come from the notion that growth will lead us up against some economic barriers. One of the principal barriers commentators report on is the presumed trade-off between unemployment and inflation rates. The belief in such a trade-off derives from the widely disseminated "Phillips Curve" theory.

Unfortunately, the Phillips Curve has one glaring vice—it is incorrect. The data on unemployment rates and inflation rates over the past forty years are positively correlated (they go up and down together) even when lagged effects are taken into account, rather than moving in opposite directions. Professor Phillips originally used British data from the first half of the 20th century to state his results. When data from the United States are used for the last forty years, there is no statistically significant relationship between inflation rates and unemployment one way or the other. Since 1950, there have been fifteen years where unemployment has been at or below today's level of 5.4%, and during these years, the rate of inflation averaged 3.6%. In the other twenty-three years where the unemployment rate was above 5.4%, the rate of inflation averaged a higher 4.8%.

The correct way to view the inflation/unemployment connection is as follows: Real wages can only rise above the growth rate in productivity for some workers at the expense of real wages of other workers. As U.S. unemployment continues to fall, domestic labor markets become tight, i.e., in order to hire more American workers, there is pressure to bid up wages above levels justified by workers' productivity. However, there are countervailing forces at work to relieve this pressure. Employers are not forced to engage in inflationary wage increases, because they can substitute machinery for workers and, more importantly in today's global economy, they can turn to foreign workers for expansion by sending some work outside the United States. This release of the inflationary wage pressure may be misinterpreted as coming at the expense of higher unemployment. In fact, this response provides for more productive use of capital and labor, which in turn creates more jobs and permits non-inflationary wage increases.

The good news is, the good news really is good.

Recent Evidence

Many aggregate economic measures, such as real GNP, have experienced higher than postwar improvements

Dr. Richard W. Rahn, Vice President and Chief Economist
Ms. Graciela Testa-Ortiz, Director, Forecast Section
Dr. William K. MacReynolds, Director, Financial and Monetary Affairs

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TABLE I
UNITED STATES ECONOMIC OUTLOOK 1988-1990
Prepared by the U.S. Chamber of Commerce
(Percent change from previous period at seasonally adjusted annual rates.)

	QUARTERS										YEARS			
	Actual			Forecast							Actual	Forecast		
	87:3	87:4	88:1	88:2	88:3	88:4	89:1	89:2	89:3	89:4	1987	1988	1989	1990
GROSS NATIONAL PRODUCT														
Real GNP	4.3	4.8	3.9	3.0	2.9	3.2	2.5	3.9	3.8	4.5	2.9	3.7	3.3	2.9
Consumption	5.4	-2.5	4.3	2.4	2.0	2.0	2.1	2.7	3.0	3.2	1.9	2.1	2.4	1.7
Residential Investment	-6.5	7.4	-9.4	1.7	0.1	-2.2	-1.0	2.3	6.9	11.0	0.0	-1.9	1.4	6.4
Nonresidential Investment	25.8	1.6	20.8	3.8	3.7	4.8	4.6	4.3	4.2	6.0	1.0	10.5	4.4	2.8
Equipment	26.3	-0.9	32.8	5.2	5.8	7.3	6.4	5.5	4.8	6.7	3.3	13.6	6.1	3.3
Structures	24.6	8.4	6.6	-0.2	-2.3	-2.3	-0.8	0.7	2.4	3.8	-4.5	2.1	-0.3	1.4
Exports	23.7	15.9	20.7	11.8	13.4	12.4	12.8	12.4	11.9	11.0	12.8	15.5	12.4	9.8
Real Net Exports (82$B)	-138.4	-135.8	-119.1	-121.1	-110.4	-101.5	-92.8	-85.8	-79.4	-73.4	-135.5	-113.0	-82.9	-49.2
Imports	22.4	9.9	3.4	1.4	3.1	3.8	4.5	5.6	5.9	5.5	7.3	6.8	4.5	3.1
Government Purchases	4.5	14.1	-21.2	16.3	2.5	8.0	-9.4	1.1	5.0	9.7	1.0	0.4	1.6	-0.1
Final Sales	6.0	0.9	4.5	7.7	6.1	6.3	5.7	6.7	7.3	8.2	2.1	6.3	6.5	6.6
Change in Business Inventories (82$B)	24.6	60.5	55.4	40.2	36.4	32.8	36.7	41.5	39.1	34.7	42.9	41.2	38.0	41.9
Industrial Production	8.7	7.1	3.9	3.7	3.3	4.1	2.4	5.0	4.6	6.0	3.8	5.0	3.9	3.7
New Car Sales (mill.)	11.6	10.0	10.7	10.3	10.2	10.4	10.3	10.6	10.7	10.8	10.3	10.2	10.5	10.5
Domestic Car Sales (mill.)	8.0	6.7	7.6	7.1	7.0	7.2	7.3	7.5	7.6	7.8	7.1	7.2	7.5	7.5
New Housing Starts (mill.)	1.62	1.53	1.48	1.52	1.47	1.44	1.43	1.44	1.47	1.52	1.63	1.48	1.46	1.46
EMPLOYMENT, WAGES AND PRICES														
Civilian Unemployment Rate (%)	6.0	5.9	5.7	5.4	5.2	5.2	5.1	4.9	4.9	4.7	6.2	5.4	4.9	4.5
Compensation	3.5	3.5	4.1	3.8	3.9	3.7	4.4	3.2	3.3	3.5	2.8	3.7	3.8	4.6
Productivity	4.1	0.4	-0.4	1.3	1.3	1.5	1.0	2.1	1.7	2.0	0.8	1.1	1.5	1.2
Unit Labor Costs	-0.5	2.7	4.9	2.3	2.6	2.2	3.4	1.1	1.5	1.4	2.0	2.6	2.2	3.4
Consumer Price Index	3.9	3.6	3.4	4.2	4.0	3.7	3.4	3.5	3.7	4.2	3.7	3.8	3.7	3.8
Implicit GNP Deflator	2.8	2.7	1.7	3.0	2.7	2.7	3.3	3.1	3.2	3.2	3.0	2.5	3.0	3.7
Prime Interest Rate (%)	8.4	8.9	8.6	8.8	9.4	9.0	8.8	8.6	8.6	8.6	8.2	8.9	8.7	8.5
3-mos. Treasury Bill Rate (%)	6.0	5.9	5.7	6.1	6.4	6.4	6.4	6.4	6.4	6.4	5.8	6.2	6.4	6.7
Corporate Bond Rate (%)	9.8	10.2	9.6	9.8	9.9	10.2	10.1	10.1	10.0	9.9	9.4	9.9	10.0	10.0
Real Personal Disposable Income	4.2	6.0	3.2	1.1	2.0	1.0	1.7	1.1	1.3	1.6	1.2	2.7	1.4	1.7
Profits from Current Production ($B)[1]	172.0	173.0	166.7	180.4	181.9	187.2	188.7	200.7	211.0	222.1	168.5	179.0	205.7	218.6
GOVERNMENT FISCAL POLICY ($B)[2]														
Unified Receipts											854	909	951	1044
Unified Outlays											1005	1069	1100	1153
Unified Deficit											-151	-160	-149	-109

[1] After-tax corporate profits with inventory valuation and capital consumption allowances.

[2] Unified budget figures on a fiscal year basis.

SOURCE: U.S. Chamber of Commerce, Forecasting Section, using the Washington University macro model of the U.S. economy.

FORECAST ASSUMPTIONS

This month's forecast contains preliminary estimates of the National Income and Product Accounts for the first quarter of 1988. The nation's money supply M(1) is assumed to grow by 5.6 percent in 1988, 5.7 percent in 1989 and 5.2 percent in 1990. The trade weighted exchange value of the dollar falls by 7.9 percent in 1988, 6.0 percent in 1989 and rises by 1.8 percent in 1990. The federal minimum wage is not assumed to increase.

in the 1980s. Other measures such as employment are at all-time highs. Still other measures, like inflation and interest rates, have reversed their unwelcome trends of the late 1970s. While still others, such as investment, productivity, and unemployment, are rebounding steadily from recessionary levels. Recent reports merely continue these trends.

The report on first quarter economic activity corroborated evidence from other indicators that pointed to continued strength in the nation's economy. The unexpectedly large 3.9% real increase in GNP is reassuring.

There was a strong rebound in demand during the first quarter as final sales increased at a 4.5% rate compared to a 0.9% advance in the fourth quarter. The rebound was paced by a 4.3% increase in consumer spending that was largely concentrated in auto purchases. Domestic car sales averaged 7.6 million units compared to 6.8 million in the last quarter of 1987.

Consumer spending is expected to continue the pattern of the past 66 months. Contrary to popular wisdom, this expansion was *not* the result of a consumption binge. Consumer spending merely has kept pace with GNP growth. Improvements in employment and personal income will help maintain the momentum of consumer spending. Real personal disposable income rose by 3.2% during the first quarter, while civilian employment increased by 2.6% or 728,000 jobs.

Investment in producers' durable equipment surged at a 32.8% annual rate during the first quarter, largely on the strength of business equipment investment. The fundamentals underlying this sector are very strong. Orders for machine tools in the first quarter were 83% higher than the previous year, while orders for nondefense capital goods rose by 20%. As a result, this sector is likely to remain strong and be a major contributor to total economic activity this year.

The economy's expansion has meant that many industries are operating at higher levels of capacity. Increases in investment in producers' durable equipment has led to a 2.6% increase in industrial capacity from the first quarter of 1987 to the first quarter of this year. Some analysts believe that the United States is entering the second stage of a capital spending boom.

The only weakness in investment is in the construction sector, both residential and nonresidential. Housing starts declined throughout 1987 as multi-family starts were hard hit by high vacancy rates and tax reform. In the near term, residential investment is likely to be constrained by rising mortgage rates. Moreover, demographics have changed substantially during the past few years. While not long ago, demographic and replacement demand were consistent with a level of starts of approximately 1.7 million units, a significant slowdown in household formation will reduce demand to a level consistent with 1.5 million starts for the longer term.

The large inventory buildup that fueled GNP growth during the last quarter of 1987 was worked off during the first quarter of this year. Industrial production in manufacturing slowed from an increase of 7% in 1987:4 to 4% in 1988:1. The first quarter saw a substantial destocking of inventories although it was masked by a swing in Commodity Credit Corporation (CCC) purchases. The reported decumulation in inventories between the fourth quarter of 1987 and the first quarter of 1988 was only $5.1 billion. However, when this is added to the swing in CCC purchases, it yields a CCC-adjusted inventory drawdown of $21.0 billion.

The automobile sector worked off its inventory pile-up during the first quarter as well; sales of domestic cars exceeded production by 1.3 million units. Second quarter production schedules show that domestic automobile producers will increase output sharply. The anticipated production level is 7.4 million units, compared to only 6.3 million in the first quarter. Given an average price per car of $11,400 (in 1982 dollars), this 1.1 million unit increase in production represents a $12.5 billion contribution to GNP, the equivalent of 1.3 percentage points.

Despite the 16.8% increase in real exports that took place during the past four quarters, the reduction in net exports (exports minus imports) has been considerably less. The reason is that imports also have risen, albeit at a much slower rate (12%) than exports. The continued increase in imports should not, however, be interpreted as necessarily bad. The United States is a large importer of capital goods. These imports, therefore, increase the productive capacity of the U.S. economy and contribute to increases in production for domestic consumption and to satisfy foreign demand. The latest data on merchandise trade show a sharp decline in the deficit. While these monthly numbers have a tendency to vary widely, we are likely to continue to see improvements in the trade sector.

If the Fed intends to bring inflation down below current levels it must do so gradually and predictably. The only cloud on the economic horizon is uncertainty over what the Fed will do next. Credit markets are whipsawed from fears the Fed will tighten too much, to anxiety that it will fail to restrain inflation. If the Fed will make clear beforehand what it is doing, a major source of instability in the economy will be removed. Then investors and business managers will become more confident about the future so they can keep the economic growth going.

TABLE II
TRENDS IN COMMERCE

	Current Period		Previous Period	Year Ago	Percent Change From Previous Period	Percent Change From Year Ago
Population (millions) [a]	Apr '88	245.6	245.5	243.8	[c]	0.7
Gross National Product ($B)	I '88	4,668.7	4,607.4	4,377.7	1.3	6.6
Gross National Product (82$B)	I '88	3,918.0	3,880.8	3,772.2	1.0	3.9
Money Supply (M1) ($B)	Apr '88	770.2	763.1	744.7	0.9	3.4
Money Supply (M2) ($B)	Apr '88	2,922.3	2,967.7	2,847.4	-1.5	2.6
PEOPLE AND THEIR MONEY						
Personal Consumption Expenditures ($B)	Apr '88	3,097.8	3,098.8	2,931.5	0.0	5.7
Personal Consumption Expenditures (82$B)	Apr '88	2,528.2	2,544.8	2,487.0	-0.7	1.7
Disposable Personal Income ($B)	Apr '88	3,324.4	3,356.2	3,068.4	-0.9	8.3
Disposable Personal Income (82$B)	Apr '88	2,713.1	2,756.2	2,603.1	-1.6	4.2
Personal Savings Rate (%)	Apr '88	3.8	4.7	1.4	-0.9 [b]	2.4 [b]
Civilian Employment (millions)	Apr '88	114.7	114.1	111.8	0.5	2.6
Civilian Unemployment Rate (%)	Apr '88	5.4	5.6	6.3	-0.2 [b]	-0.9 [b]
Average Hourly Earnings	Apr '88	$9.22	$9.17	$8.91	0.5	3.5
Consumer Price Index (All urban 82=100) [a]	Apr '88	117.1	116.5	112.7	0.5	3.9
Prime Interest Rate (%) May 24, 1988	May '88	9.0	8.5	8.0	0.5	1.0
Retail Sales ($B)	Apr '88	131.6	132.3	124.7	-0.5	5.5
SERVICES SECTOR						
Employment in Services (millions)	Apr '88	79.3	79.2	76.9	0.1	3.1
Consumer Purchases of Service ($B)	Apr '88	1,669.3	1,657.7	1,545.8	0.7	8.0
Consumer Purchases of Service (82$B)	Apr '88	1,263.7	1,260.0	1,222.5	0.3	3.4
Domestic Revenue Passenger Mileage Flown Major Airlines (billions) [a]	Mar '88	28.7	23.6	28.9	21.6	-0.7
BUSINESS PROFITS AND OUTPUT						
Corporate Profits and Cash Flow ($B)						
Before Tax	I '88	280.6	285.6	257.0	-1.8	9.2
Profits Tax Liability	I '88	134.2	140.0	128.0	-4.1	4.8
Tax Liability as a Percent of Profits	I '88	47.8	49.0	49.8	-1.2	-2.0
After Tax	I '88	146.4	145.6	129.0	0.5	13.5
Net Cash Flow	I '88	381.0	376.6	367.3	1.2	3.7
Industrial Production (77=100)	Apr '88	135.6	134.7	127.4	0.7	6.4
Capacity Utilization Rate (Mfg.) (%)	Apr '88	82.7	82.4	79.6	0.3	3.1
New Housing Starts (thou. units)	Apr '88	1,561.0	1,554.0	1,635.0	0.5	-4.5
BUSINESS COSTS						
Unit Labor Costs (nonfarm) (77=100)	I '88	175.2	172.7	171.8	1.4	2.0
Unit Nonlabor Costs (nonfarm) (77=100)	I '88	171.3	171.8	167.4	-0.3	2.3
Producer Price Indices (82=100) [d]						
Crude Materials	Apr '88	95.7	94.1	92.4	1.7	3.6
Intermediate Goods	Apr '88	105.5	104.6	100.2	0.9	5.3
Finished Goods	Apr '88	106.9	106.2	105.1	0.7	1.7
FEDERAL SPENDING AND DEBT						
Federal Spending Index (67=100)	Apr '88	696.8	677.4	641.1	2.9	8.7
Fed. Gov't Gross Debt Outstanding ($B) [a]	Apr '88	2,508.3	2,493.2	2,275.8	0.6	10.2
INTERNATIONAL TRADE						
Exports of Goods & Services ($B)	I '88	482.7	458.1	397.3	5.4	21.5
Imports of Goods & Services ($B)	I '88	592.1	582.4	509.5	1.7	16.2
Balance of Goods & Services ($B)	I '88	109.4	124.3	112.2	-12.0	-2.5
WHAT'S AHEAD?						
Index of Leading Indicators (67=100) [a]	Mar '88	193.3	191.7	187.6	0.8	3.0

NOTE: All data seasonally adjusted unless otherwise noted

[a] Not seasonally adjusted [c] Less than 0.05 percent

[b] Percentage point difference [d] Index number not seasonally adjusted, percent change seasonally adjusted

8/10/88 A3840-6

ECONOMIC OUTLOOK

Chamber of Commerce of the United States July/August 1988

ARE THE CRISES OVER?

First quarter figures and preliminary evidence for the second quarter show that during the first half of this year, the economy has performed brilliantly ignoring fears of both recession and accelerating inflation. Last October, the stock market decline raised fears of recession. Then, continued good news on growth and employment quelled the recession scare but raised fears of "overheating" and inflation. Both scares have turned out to be bogus crises—inflation is not accelerating and confident predictions of steady growth abound.

First quarter GNP grew at a 3.6 percent annual rate. The Consumer Price Index is rising just below 4 percent over the past twelve months and it is not likely exceed that rate throughout the remainder of 1988. Underlying the GNP growth are continued employment growth and strong productivity gains in the first half of 1988. Unemployment has fallen to 5.3 percent in June, the lowest since May, 1974.

Throughout the 1970s, it became widely accepted that a trade-off exists between inflation and unemployment. The record of the 1980s provides conclusive evidence that no law of economics demands such a trade-off. No serious signs of wage acceleration have appeared, and the downward drift in the unemployment rate should continue well into 1989.

There are other optimistic signs as well. Nonresidential investment has been booming. Exports have surged ahead leading to a decline in the trade deficit. The federal budget deficit is shrinking, although spending growth is still much too high. And the value of the dollar has been relatively stable for several months as the pressures for the dollar to fall have receded. Foreign economies are showing signs of new growth indicating that the U.S. export boom can continue. The U.S. economy has become more balanced as noninflationary growth continues.

There are, of course, remaining problems in the U.S. economy—some real, some only imagined. Interest rates, especially short term rates, are too high. The economy's performance over the past eighteen months should convince the Federal Reserve that economic growth poses no threat to inflation. It is time to lower the Federal Funds Rate.

As to imagined problems, some analysts, using just the residual between personal disposable income and personal consumption to measure savings, claim that savings is far too low. These statistics, however, include in the personal consumption category numerous activities best thought of as savings. When all sources of savings are counted (business savings, changes in the value of assets, contributions to pension funds, and so forth), U.S. savings compares favorably to that of the Japanese.

Most conspicuous in the imagined crisis category is the lingering doubt about U.S. competitiveness. Two recent reports give conflicting judgments on U.S. competitiveness. The *Competitiveness Index* released by the Council on Competitiveness erroneously claims that U.S. competitiveness has slipped.

The Council's overall competitiveness index misses the mark entirely. The key element in any measure of competitiveness is how well off a population has become. This is indicated by the standard of living. Since 1982, the U.S. standard of living has increased

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TABLE I
UNITED STATES ECONOMIC OUTLOOK 1988-1990
Prepared by the U.S. Chamber of Commerce
(Percent change from previous period at seasonally adjusted annual rates.)

	QUARTERS										YEARS			
	Actual			Forecast							Actual	Forecast		
	87:3	87:4	88:1	88:2	88:3	88:4	89:1	89:2	89:3	89:4	1987	1988	1989	1990
GROSS NATIONAL PRODUCT														
Real GNP	4.3	4.8	3.6	3.2	3.1	3.3	2.9	3.5	3.5	3.6	2.9	3.7	3.3	3.3
Consumption	5.4	-2.5	3.8	1.9	2.5	3.0	2.5	2.9	2.7	2.6	1.9	2.1	2.7	2.4
Residential Investment	-6.5	7.4	-8.8	-4.1	-0.5	3.4	2.5	1.5	1.1	5.4	0.0	-2.6	1.7	4.8
Nonresidential Investment	25.8	1.6	21.0	4.0	7.3	7.1	6.5	6.6	6.6	7.0	1.0	11.2	6.6	6.9
Equipment	26.3	-1.0	33.1	4.6	9.2	9.0	8.0	7.9	7.8	8.2	3.3	14.2	8.1	7.8
Structures	24.6	8.4	-6.6	2.1	2.0	1.9	2.2	2.6	2.8	3.4	-4.5	3.3	2.4	4.1
Exports	23.7	15.9	22.8	15.4	12.3	10.7	9.9	9.5	8.9	8.3	12.8	17.7	10.4	7.9
Real Net Exports (82$B)	-138.4	-135.8	-120.3	-103	-94.4	-89.1	-84.8	-79.6	-75.5	-72.2	-135.5	-101.7	-78.0	-68.1
Imports	22.4	9.9	5.9	0.0	4.1	5.3	5.5	4.6	5.0	5.1	7.3	7.4	4.7	5.4
Government Purchases	4.5	-25.7	-25.7	9.6	-1.1	11.9	-6.2	0.4	0.7	6.9	1.0	-1.7	1.5	1.6
Final Sales	10.2	0.4	8.7	3.4	4.1	4.4	4.0	4.1	3.9	4.0	2.1	5.3	4.1	3.8
Change in Business Inventories (82$B)	24.6	60.5	61.0	49.6	45.1	31.2	33.8	33.4	35.4	32.4	42.9	46.7	33.7	34.8
Industrial Production	8.7	7.1	4.0	4.9	5.3	3.0	2.7	3.9	3.9	4.3	3.8	5.4	3.7	3.6
New Car Sales (mill.)	11.6	10.0	10.7	10.5	10.2	10.4	10.4	10.5	10.5	10.5	10.3	10.4	10.5	10.5
Domestic Car Sales (mill.)	8.0	6.7	7.6	7.3	7.1	7.3	7.2	7.3	7.4	7.5	7.1	7.3	7.3	7.5
New Housing Starts (mill.)	1.62	1.53	1.48	1.49	1.50	1.51	1.50	1.48	1.48	1.51	1.63	1.49	1.49	1.50
EMPLOYMENT, WAGES AND PRICES														
Civilian Unemployment Rate (%)	6.0	5.9	5.7	5.5	5.3	5.2	5.1	4.9	4.7	4.5	6.2	5.4	4.8	4.2
Compensation	3.5	3.5	3.6	3.9	4.0	4.2	4.6	4.3	4.4	4.4	2.8	3.7	4.3	4.9
Productivity	4.1	-1.0	3.7	0.5	0.8	1.3	1.1	1.5	1.4	1.5	0.8	1.6	1.2	1.3
Unit Labor Costs	-0.5	4.3	0.0	3.3	3.1	2.8	3.5	2.8	2.9	2.9	2.0	2.0	3.1	3.5
Consumer Price Index	3.9	3.6	3.4	4.1	3.8	4.3	4.2	4.0	3.5	3.2	3.7	3.8	4.0	4.0
Implicit GNP Deflator	2.8	2.7	1.4	3.2	3.0	3.1	3.6	3.0	2.8	2.5	3.0	2.6	3.1	3.3
Prime Interest Rate (%)	8.4	8.9	8.6	8.7	9.0	9.0	9.0	9.0	8.8	8.8	8.2	8.8	8.9	8.6
3-mos. Treasury Bill Rate (%)	6.0	5.9	5.7	6.2	6.5	6.8	6.9	6.8	6.8	6.8	5.8	6.3	6.8	6.7
Corporate Bond Rate (%)	9.8	10.2	9.6	9.7	10.0	10.0	10.0	9.7	9.7	9.7	9.4	9.8	9.8	9.5
Real Personal Disposable Income	4.2	6.0	3.5	0.5	3.6	2.4	3.0	2.2	2.4	2.7	1.2	2.9	2.6	2.2
Profits from Current Production ($B)[1]	172.0	173.0	173.7	182.0	181.2	179.7	180.3	183.0	185.9	185.0	168.5	168.5	183.6	175.8
GOVERNMENT FISCAL POLICY ($B)[2]														
Unified Receipts											854	909	951	1044
Unified Outlays											1005	1069	1100	1153
Unified Deficit											-151	-160	-149	-109

[1] After-tax corporate profits with inventory valuation and capital consumption allowances.

[2] Unified budget figures on a fiscal year basis.

SOURCE: U.S. Chamber of Commerce, Forecasting Section, using the Washington University macro model of the U.S. economy.

FORECAST ASSUMPTIONS

This month's forecast contains revised estimates of the National Income and Product Accounts for the first quarter of 1988. The nation's money supply M(1) is assumed to grow by 5.5 percent in 1988, 5.4 percent in 1989 and 6.0 percent in 1990. The trade weighted exchange value of the dollar falls by 7.9 percent in 1988, 6.1 percent in 1989 and 5.3 percent in 1990. The federal minimum wage is not assumed to increase.

by 10.5 percent, as measured by increases in real after tax disposable income per person.

To compare the trend of the U.S. standard of living to that of other countries, the appropriate measure is the rate of growth of real Gross Domestic Product (GDP) per capita. By this measure the U.S. has grown faster, at 3.0 percent, than most countries from 1983 through 1987.

Based upon the most widely accepted measures of living standards, the data do not support the assertion that the American standard of living has declined either in absolute terms or relative to other countries in recent years.

The Council's report completely misses the mark on productivity as well. Since 1983, productivity in U.S. manufacturing has grown at an average rate of 4.5 percent a year, far above the 2.3 percent average annual rate of the 1973 to 1982 period. The U.S. has the highest output per hour ratio of any country at this time. There is no "productivity gap," nor does one threaten to develop.

In a more balanced assessment of American competitiveness, The New York Federal Reserve reports, in its Spring, 1988 *Quarterly Review*, that "U.S. manufacturing has clearly become more competitive in recent years. This achievement was the result of sharp dollar depreciation, wage restraint, and strong improvements in U.S. productivity and quality performance."

U.S. exports are growing because productivity growth has enhanced production. Since 1982, American industrial production has risen by more than 26 percent, compared with 22 percent in Japan, 11.6 percent in West Germany, and 8.8 percent in Europe as a whole.

Gross fixed investment in the U.S. has risen at an annual rate of 6.6 percent from 1983 to 1987, higher than any country in the world. During the first quarter of 1988, nonresidential investment surged at an annual 21 percent clip. Consequently, productivity growth and industrial production, especially in manufacturing, should continue to be strong in the U.S.

The "competitiveness crisis" is an imagined problem. Unfortunately, competitiveness is typical of the kind of issues that divert people's attention from the real problems facing the American economy. As quickly as one supposed crisis is laid to rest, another is manufactured. And, all of the imagined crises seem to have two traits in common: They are used to justify more government intervention into the economy, and they serve as a way of avoiding the real problems facing the nation.

The real problem remains exorbitant increases in federal spending. Beginning as early as 1976, a discrepancy opened up between the growth rates of federal spending and revenues which plagues the nation to this day. Revenues actually grew faster over the 1982-1987 period than they did between 1975 and 1981 despite major tax rate reductions in the 1980s. Tax revenues increased by an average of $337 billion a year between 1980 and 1987. Spending, unfortunately, grew even faster during the 1980s, an average of $414 billion a year, causing the deficit to explode. In 1987, revenues comprised 19.4 percent of GNP, while spending had grown to consume 22.8 percent.

Congress has created the deficit problem, not by cutting taxes, but rather by increasing spending beyond the growth of revenues. To reverse this situation, Congress must adjust the growth rate of federal spending to bring it into line with the growth rate of revenues. The adjustment can be made without cutting spending and without raising taxes. The budget can be balanced between now and 1993 without touching Social Security benefits. It can be achieved by simply holding the rate of increase in federal spending to the rate of inflation. If elected officials cannot bring the deficit under control over the next five years without raising taxes, the real crisis the nation must admit to is a crisis of leadership.

Productivity Turnaround Boosts U.S. Competitiveness

After 1980, higher manufacturing productivity[1] and lower manufacturing unit labor costs[2] have boosted U.S. competitiveness significantly. Two of the most closely tracked indicators of competitiveness, manufacturing productivity and unit labor costs have turned around beginning in 1981 after heading steadily in the wrong directions from 1976 to 1980. The table shows that the average annual rate of change in manufacturing productivity between the 1981 to 1987 period was more than double that of the 1976 to 1980 period. The average annual rate of change in manufacturing unit labor costs actually declined in the recent period.

[1] Defined as manufacturing output per hour.

[2] Defined as compensation divided by output (where compensation is defined as wages and salaries plus employers' contributions for social insurance and private benefit plans, and all other fringe benefits in current dollars).

Years	Manufacturing Productivity*	Manufacturing Unit Labor Costs*
1976-1980	1.8%	7.4%
1981-1987	3.9	-1.1

*Average annual percentage change.

TABLE II
TRENDS IN COMMERCE

	Current Period		Previous Period	Year Ago	Percent Change From Previous Period	Percent Change From Year Ago
Population (millions) [a]	May '88	245.8	245.6	243.8	[c]	0.8
Gross National Product ($B)	I '88	4,665.1	4,607.4	4,377.7	1.3	6.6
Gross National Product (82$B)	I '88	3,915.4	3,880.8	3,772.2	0.9	3.8
Money Supply (M1) ($B)	May '88	770.1	770.1	746.5	[c]	3.2
Money Supply (M2) ($B)	May '88	3,003.9	2,991.8	2,849.1	0.4	5.4
PEOPLE AND THEIR MONEY						
Personal Consumption Expenditures ($B)	I '88	3,068.3	3,022.6	2,893.8	1.5	6.0
Personal Consumption Expenditures (82$B)	I '88	2,527.9	2,504.6	2,475.9	0.9	2.1
Disposable Personal Income ($B)	May '88	3,370.3	3,321.8	3,165.5	1.5	6.5
Disposable Personal Income (82$B)	Apr '88	2,711.3	2,755.3	2,603.1	-1.6	4.2
Personal Savings Rate (%)	May '88	4.1	3.7	4.3	0.4 [b]	-0.2 [b]
Civilian Employment (millions)	May '88	115.0	114.1	111.8	0.8	2.9
Civilian Unemployment Rate (%)	Jun '88	5.2	5.4	6.1	-0.2 [b]	-0.9 [b]
Average Hourly Earnings	Jun '88	$9.22	$9.17	$8.94	0.5	3.1
Consumer Price Index (All urban 82=100) [a]	May '88	117.5	117.1	113.1	0.5	3.9
Prime Interest Rate (%) July 12, 1988	Jul '88	9.0	8.25	8.0	0.8 [b]	1.0
Retail Sales ($B)	Jun '88	132.8	132.0	128.9	0.6	3.0
SERVICES SECTOR						
Employment in Services (millions)	Jun '88	80.2	80.0	77.3	0.2	3.8
Consumer Purchases of Service ($B)	I '88	1,645.9	1,616.5	1,527.7	1.8	7.7
Consumer Purchases of Service (82$B)	I '88	1,255.1	1,245.6	1,216.9	0.8	3.1
Domestic Revenue Passenger Mileage Flown Major Airlines (billions) [a]	May '88	26.7	26.4	27.6	1.1	-3.3
BUSINESS PROFITS AND OUTPUT						
Corporate Profits and Cash Flow ($B)						
Before Tax	I '88	281.5	285.6	257.0	-1.4	9.5
Profits Tax Liability	I '88	137.2	140.0	128.0	-2.0	7.2
Tax Liability as a Percent of Profits	I '88	47.8	49.0	49.8	-1.2	-2.0
After Tax	I '88	144.2	145.6	129.0	-1.0	11.8
Net Cash Flow	I '88	395.3	376.6	367.3	5.0	7.6
Industrial Production (77=100)	Jun '88	136.6	136.1	129.1	0.4	5.8
Capacity Utilization Rate (Mfg.) (%)	May '88	82.9	82.7	79.9	0.2 [b]	3.0 [b]
New Housing Starts (thou. units)	May '88	1,384.0	1,576.0	1,599.0	-12.2	-13.4
BUSINESS COSTS						
Unit Labor Costs (nonfarm) (77=100)	I '88	175.2	172.7	171.8	1.4	2.0
Unit Nonlabor Costs (nonfarm) (77=100)	I '88	171.3	171.8	167.4	-0.3	2.3
Producer Price Indices (82=100) [d]						
Crude Materials	Jun '88	98.2	97.1	95.1	1.1	3.3
Intermediate Goods	Jun '88	107.4	106.2	101.5	1.1	5.8
Finished Goods	Jun '88	107.9	107.5	105.5	0.4	2.3
FEDERAL SPENDING AND DEBT						
Federal Spending Index (67=100)	May '88	691.5	696.8	640.0	-0.8	8.0
Fed. Gov't Gross Debt Outstanding ($B) [a]	May '88	2,526.5	2,508.3	2,292.6	0.7	10.2
INTERNATIONAL TRADE						
Exports of Goods & Services ($B)	I '88	485.8	458.1	397.3	6.0	22.3
imports of Goods & Services ($B)	I '88	596.9	582.4	509.5	2.5	17.2
Balance of Goods & Services ($B)	I '88	111.1	124.3	112.2	-10.6	-1.0
WHAT'S AHEAD?						
Index of Leading Indicators (67=100) [a]	May '88	192.6	192.8	188.6	-0.1	2.1

NOTE: All data seasonally adjusted unless otherwise noted

[a] Not seasonally adjusted [c] Less than 0.05 percent

[b] Percentage point difference [d] Index number not seasonally adjusted, percent change seasonally adjusted

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ECONOMIC OUTLOOK

Chamber of Commerce of the United States

September/October 1988

PROSPERITY, TAXES AND THE DEFICIT:

THE "FAIR FREEZE" SOLUTION

With nearly six years of economic growth under our belts, some pundits might ask, "Do you feel more certain about the economy now than you did a few years ago?" There should be, in response, a resounding "Yes!" at least from economic forecasters. The majority of economic forecasters project continued growth throughout most of 1989 without accelerating inflation. If the Fed refrains from slowing down the economy, our forecast is no exception.

One year from now, analysts likely will be talking about an 82-month economic expansion. If projections are correct, there will be fewer problems associated with a reduced federal budget deficit and the external deficit. If the year goes as expected, next year's headlines ought to read: "Nothing Increases the Government's Tax Take Like Prosperity."

After the November elections, attention will be focused on the federal budget process. More funds will be sought for every single expenditure program, and legislators will be besieged with requests to augment existing program expenditures and to create new ones. The conventional wisdom is that it will take tax increases to see us through the early 1990s.

However, a look at the recent record on spending and taxes suggests there may be an alternative way to put the nation's fiscal policy on a more certain path toward balancing the budget. The cold facts are as follows:

- Federal revenues have increased 65 percent since 1980, from $517 billion to $854 billion in 1987. Federal revenues as a percentage of GNP have risen from a low of 18.1 percent in 1983 to 19.4 percent in 1987. Under current tax laws with consensus forecasts of economic growth, federal revenues are projected to grow by 9.3 percent per year through 1994. At this rate, federal revenues will double every 8 years.

- Federal spending has increased 70 percent since 1980, from $591 billion to $1.005 trillion in 1987. Federal spending as a percentage of GNP hit a peak of 24.3 percent in 1983 and has since fallen to 22.8 percent in 1987.

- The federal deficit as a percentage of GNP peaked at 6.3 percent in 1983 and has since fallen to 3.4 percent of GNP in 1987 and is running at 3.2 percent of GNP in 1988. Total government deficit (which includes state and local budgets) as a percentage of GNP has been, and still is, well below the average for the major industrialized nations. In 1987, it was 2.4 percent of GNP for the United States, while the average for industrialized countries stood at 3.5 percent.

Economic Outlook, published bimonthly by the Forecasting Section, Chamber of Commerce of the United States of America, provides its readership with the Chamber's official forecast of the U.S. economy. It analyzes the vital issues affecting current economic activity and provides the latest economic trends. Subscription cost is $60.00 per year which includes all *Policy Working Papers* published by the Economic Policy Division. Individual copies of the *Outlook* can be purchased for $7.50 per copy.

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Ms. Graciela D. Testa, Director, Forecasting Section
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TABLE I
UNITED STATES ECONOMIC OUTLOOK 1988-1990
Prepared by the U.S. Chamber of Commerce
(Percent change from previous period at seasonally adjusted annual rates unless otherwise indicated.)

	QUARTERS									YEARS			
	Actual			Forecast						Actual	Forecast		
	87:4	88:1	88:2	88:3	88:4	89:1	89:2	89:3	89:4	1987	1988	1989	1990
GROSS NATIONAL PRODUCT													
Real GNP	6.1	3.4	3.3	3.5	2.7	4.3	2.7	3.1	3.6	3.4	4.1	3.3	3.1
Consumption	-2.1	4.5	2.8	3.8	2.6	2.4	2.3	2.5	2.7	2.7	2.7	2.6	2.5
Residential Investment	1.3	-6.5	1.1	-1.8	1.0	-4.1	3.7	16.5	19.5	0.1	-2.9	2.8	7.4
Nonresidential Investment	1.7	7.6	16.3	11.2	7.6	3.9	3.7	4.6	5.4	2.8	11.4	6.3	4.8
Equipment	-2.4	21.6	17.9	13.6	9.2	4.4	3.9	4.9	5.7	5.2	15.3	7.2	5.0
Structures	13.4	-22.4	12.1	4.1	3.1	2.3	3.1	3.8	4.7	-2.9	1.7	3.7	4.1
Exports	17.7	25.7	11.6	12.4	8.9	7.5	6.6	6.4	6.3	13.1	18.4	8.2	6.7
Real Net Exports (82$B)	-126.0	-109.0	-90.1	-85.7	-82.8	-79.7	-77.0	-76.7	-77.2	-128.9	-91.9	-77.6	-74.3
Imports	9.9	6.9	-3.6	7.3	5.6	4.3	3.9	5.4	5.8	7.9	7.5	4.5	5.4
Government Purchases	6.7	-21.0	4.0	4.5	11.8	0.0	0.4	6.6	0.7	1.7	-1.3	3.8	-0.3
Final Sales	0.4	3.6	6.5	5.0	3.6	3.1	3.0	4.3	4.3	2.9	6.0	3.8	3.5
Change in Business Inventories (82$B)	67.1	66.0	36.0	23.0	8.1	27.2	27.9	21.8	22.7	34.4	33.3	24.9	34.8
Industrial Production	7.1	4.0	4.6	5.9	5.0	1.8	2.5	3.5	4.7	3.8	5.6	3.6	3.4
New Car Sales (mill.)	9.9	10.8	10.6	10.8	10.5	10.4	10.4	10.4	10.4	10.3	10.7	10.4	10.5
Domestic Car Sales (mill.)	6.6	7.6	7.5	7.9	7.6	7.5	7.4	7.5	7.5	7.1	7.7	7.5	7.5
New Housing Starts (mill.)	1.54	1.48	1.47	1.48	1.46	1.37	1.46	1.54	1.62	1.63	1.48	1.50	1.49
EMPLOYMENT, WAGES AND PRICES													
Civilian Unemployment Rate (%)	5.9	5.7	5.4	5.3	5.2	5.3	5.2	5.1	4.9	6.2	5.4	5.1	4.5
Compensation	6.3	3.5	4.2	4.0	4.4	6.4	4.3	4.4	4.4	3.8	4.4	4.8	4.9
Productivity	1.1	3.3	-1.8	1.2	1.1	0.8	1.3	1.3	1.5	0.8	1.6	1.0	1.1
Unit Labor Costs	4.9	0.0	6.4	2.6	3.3	5.5	3.0	3.1	2.8	3.1	2.8	3.8	3.7
Consumer Price Index	3.6	3.4	4.8	4.5	4.3	4.7	4.5	4.1	3.3	3.7	4.1	4.4	3.8
Implicit GNP Deflator	2.4	1.7	5.1	4.1	3.3	3.7	3.3	3.0	2.7	3.3	3.2	3.5	3.2
Prime Interest Rate (%)	8.9	8.6	8.8	9.7	10.4	10.2	9.8	9.7	9.8	8.2	9.4	9.9	9.5
3-mos. Treasury Bill Rate (%)	5.9	5.7	6.2	7.0	7.6	7.4	7.1	7.0	7.1	5.8	6.6	7.1	6.9
Corporate Bond Rate (%)	10.2	9.6	9.8	10.1	10.6	10.6	10.4	10.2	10.1	9.4	10.0	10.3	10.0
Real Personal Disposable Income	7.0	5.0	0.5	5.7	2.1	5.8	1.6	2.1	2.8	1.2	3.8	3.3	2.3
Profits from Current Production ($B)[1]	-7.1	0.1	21.5	-0.3	2.3	-1.5	15.9	6.7	2.9	3.7	5.8	5.1	1.7
GOVERNMENT FISCAL POLICY ($B)[2]													
Unified Receipts										854	908	988	1085
Unified Outlays										1005	1062	1134	1195
Unified Deficit										-151	-154	-146	-110

[1] Corporate profits with inventory valuation and capital consumption allowances.

[2] Unified budget figures on a fiscal year basis.

SOURCE: U.S. Chamber of Commerce, Forecasting Section, using the Washington University macro model of the U.S. economy.

FORECAST ASSUMPTIONS

This month's forecast contains revised estimates of the National Income and Product Accounts for the second quarter of 1988. The nation's money supply M(1) is assumed to grow by 5.8 percent in 1988, 5.4 percent in 1989 and 6.4 percent in 1990. The trade weighted exchange value of the dollar falls by 2.3 percent in 1988, 1.4 percent in 1989 and 5.1 percent in 1990. The federal minimum wage is assumed to increase to $3.70 in 1989 and $4.00 in 1990.

The facts show that increased spending caused the deficit and that the deficit is being reduced by prosperity-induced, not legislatively contrived revenue increases. *If legislators succumb to political pressure to raise tax rates, they run the risk of reducing prosperity and losing tax revenues.* They will shoot themselves in both feet.

Even if tax rate increases don't result in actual revenue declines, revenues certainly will be lower than the government forecasts. Consequently, as has happened many times in the past, Congress will overestimate tax revenues, vote for excessive spending based upon erroneous revenue estimates, and the budget deficit will rise.

In order to balance the budget, spending must be brought under tighter control. The federal budget can be balanced by 1993 without raising taxes. If Social Security and interest are left untouched and all remaining spending growth is restrained to the 4.5 percent inflation rate predicted by the Congressional Budget Office (CBO), revenues will rapidly catch up to federal spending levels.

We propose a Fair Budget Freeze that would balance the federal budget by 1993 by limiting the growth of non-interest, non-Social Security spending to the CBO estimated rate of inflation. The Fair Freeze solution is based on the assumption that the economy will grow at the same average rate as it has over the last 40 years.

The Fair Freeze solution has three components:

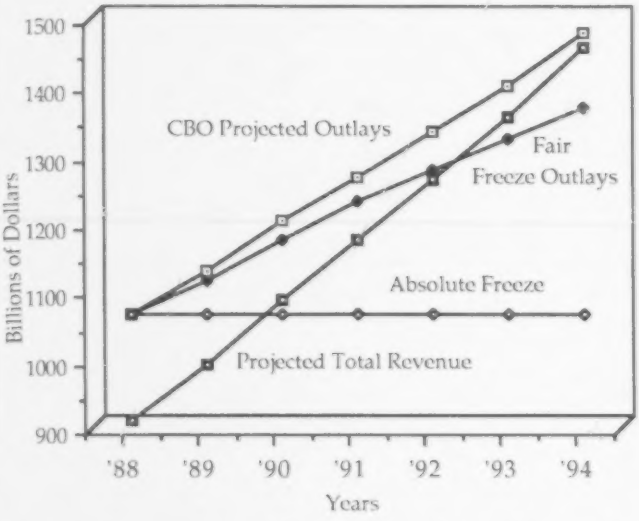
- *No assumption is made that interest rates will decrease in response to falling deficits.* Net interest expenditures on the federal debt are projected using CBO 10-year interest rate assumptions and are adjusted for assumed trend growth in GNP.

- *Social Security benefits for new entrants and existing beneficiaries are not touched.* Social Security benefits are allowed to increase at the rate CBO estimates is necessary to provide benefits called for under current law. This includes upward adjustment in payments due to inflation.

- *No spending cuts are required.* Remaining federal spending is permitted to increase at CBO's estimated rate of inflation.

The chart shows that by 1993, without tax rate increases and with continued moderate real economic growth, the budget deficit will turn into a surplus. This plan requires no real budget cuts, but does put government on an allowance. The plan respects the needs of those dependent upon Social Security, and it deals with the cause of the deficit: too much spending.

The Fair Freeze Solution



The American public intuitively understands this fact. In a survey conducted for the National Chamber Foundation by SRI Research Center, Inc., 80 percent of respondents, when presented with the cold facts, said the United States should reduce the growth of spending rather than increase taxes to balance the budget.

While politically unadorned facts seldom sway Congressional thinking, the public's commitment to stopping the growth of spending will carry a great deal of weight with their elected representatives. This proposal presumes neither that government is part of the solution nor that it is part of the problem.

The Fair Freeze starts with facts and ends with a plan that will balance the budget without derailing the economy. With the prospect of a more certain economic future, getting the facts straight is the correct first step to finding a solution to the deficit problem. The correct solution is limiting the growth of government spending.

TABLE II
TRENDS IN COMMERCE

	Current Period		Previous Period	Year Ago	Percent Change From Previous Period	Percent Change From Year Ago
Population (millions) [a]	Jul '88	246.2	246.0	243.9	[c]	0.8
Gross National Product ($B)	II '88	4,819.7	4,724.5	4,484.2	2.0	7.5
Gross National Product (82$B)	II '88	3,988.1	3,956.1	3,823.0	0.8	4.3
Money Supply (M1) ($B)	Jun '88	776.2	770.0	742.1	0.8	4.6
Money Supply (M2) ($B)	Jun '88	3,016.8	3,003.1	2,851.7	0.5	5.8
PEOPLE AND THEIR MONEY						
Personal Consumption Expenditures ($B)	II '88	3,189.1	3,128.1	2,992.2	2.0	6.6
Personal Consumption Expenditures (82$B)	II '88	2,577.2	2,559.8	2,516.6	0.7	2.4
Disposable Personal Income ($B)	jul '88	3,487.0	3,466.4	3,207.8	0.6	8.7
Disposable Personal Income (82$B)	Jun '88	2,792.5	2,778.9	2,682.2	0.5	4.1
Personal Savings Rate (%)	Jul '88	4.3	4.2	2.5	0.1 [b]	1.8 [b]
Civilian Employment (millions)	Aug '88	115.2	115.0	113.0	0.2	1.9
Civilian Unemployment Rate (%)	Aug '88	5.6	5.4	5.8	0.2 [b]	-0.2 [b]
Average Hourly Earnings	Aug '88	$9.31	$9.31	$9.01	[c]	3.3
Consumer Price Index (All urban 82=100) [a]	Jul '88	118.5	118.0	113.8	0.5	4.1
Prime Interest Rate (%) Sept. 13, 1988	Sep '88	10.0	9.0	8.0	1.0	2.0
Retail Sales ($B)	Aug '88	133.4	133.8	129.9	-0.3	2.7
SERVICES SECTOR						
Employment in Services (millions)	Aug '88	80.8	80.6	77.8	0.2	3.9
Consumer Purchases of Service ($B)	II '88	1,705.2	1,674.1	1,576.4	1.9	8.2
Consumer Purchases of Service (82$B)	II '88	1,275.2	1,265.9	1,253.6	0.7	1.7
Domestic Revenue Passenger Mileage Flown Major Airlines (billions) [a]	Jul '88	29.6	28.2	29.9	5.0	-1.0
BUSINESS PROFITS AND OUTPUT						
Corporate Profits and Cash Flow ($B)						
Before Tax	II '88	310.7	286.2	273.7	8.6	13.5
Profits Tax Liability	II '88	144.1	136.9	132.6	5.3	8.7
Tax Liability as a Percent of Profits	II '88	44.8	47.8	48.4	-3.0	-3.6
After Tax	II '88	166.6	149.4	141.1	11.5	18.1
Net Cash Flow	II '88	397.7	387.8	373.9	2.6	6.4
Industrial Production (77=100)	Aug '88	138.2	137.9	131.2	0.2	5.3
Capacity Utilization Rate (Mfg.) (%)	Aug '88	83.7	83.6	81.4	0.1	2.3
New Housing Starts (thou. units)	Jul '88	1,489.0	1,454.0	1,594.0	2.4	-6.6
BUSINESS COSTS						
Unit Labor Costs (nonfarm) (77=100)	II '88	178.1	175.7	173.0	1.4	2.9
Unit Nonlabor Costs (nonfarm) (77=100)	II '88	171.6	171.6	169.8	[c]	1.1
Producer Price Indices (82=100) [d]						
Crude Materials	Aug '88	97.3	97.0	96.5	0.3	0.8
Intermediate Goods	Aug '88	108.4	108.2	102.5	0.2	5.8
Finished Goods	Aug '88	108.8	108.5	105.9	0.3	2.7
FEDERAL SPENDING AND DEBT						
Federal Spending Index (67=100)	Jul '88	648.9	678.8	642.6	-4.4	1.0
Fed. Gov't Gross Debt Outstanding ($B) [a]	Jul '88	2,560.8	2,555.1	2,314.5	0.2	10.6
INTERNATIONAL TRADE						
Exports of Goods & Services ($B)	II '88	508.0	487.8	416.8	4.1	21.9
Imports of Goods & Services ($B)	II '88	596.6	599.9	539.0	-0.6	10.7
Deficit in Balance of Goods & Services ($B)	II '88	88.6	112.1	122.2	-21.0	-27.5
WHAT'S AHEAD?						
Index of Leading Indicators (67=100) [a]	Jul '88	192.1	193.7	190.9	-0.8	0.6

NOTE: All data seasonally adjusted unless otherwise noted

[a] Not seasonally adjusted
[b] Percentage point difference
[c] Less than 0.05 percent
[d] Index number not seasonally adjusted, percent change seasonally adjusted